# Subsidiaries that are SMEs
# Update

## Objective

1 The objective of the session is to provide EFRAG TEG members an update on the IASB's latest discussions on the project *Disclosure Initiative — Subsidiaries that are SMEs.*

2 In particular, an update on the:

(a) **Topic 1**: Should the scope remain subsidiaries that are SMEs, be extended to all SMEs, or somewhere between the two?

(b) **Topic 2**: How to adapt the disclosure requirements of the IFRS for SMEs Standard?

(c) **Topic 3**: Should there be exceptions to the process for adapting disclosure requirements?

(d) **Topic 4**: When should the IASB consider disclosure requirements for new and amended IFRS Standards?

(e) **Topic 5**: Should the consultation document be an exposure draft or a discussion paper?

## Topic 1: Should the scope remain subsidiaries that are SMEs, be extended to all SMEs, or somewhere between the two?

3 Initially, when adding this project to the research pipeline, the IASB tentatively decided to:

(a) focus on **subsidiaries that meet the description of SMEs** as set out in Section 1 of the *IFRS for SMEs* Standard. More specifically, entities that publish general purpose financial statements for external users but do not have public accountability (i.e., their debt or equity instruments are not traded in a public market and they do not hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses). The reduced-disclosure IFRS Standard would then be applied by a subsidiary preparing single entity financial statements, consolidated financial statements and/or financial statements in which the investments in associates or joint ventures are required by IAS 28 to be accounted for applying the equity method.

(b) **use the disclosure requirements from the *IFRS for SMEs* Standard as the starting point** for the disclosure requirements in the reduced disclosure IFRS Standard.

4 In December 2020 and January 2021 discussed on whether the scope should remain subsidiaries that are SMEs, whether it should be expanded to a wider group of entities and, if so, which entities.

5 In particular the IASB discussed:

(a) whether it should **wider the scope** and include the following entities that meet the definition of an SME:

(i) all SMEs (even if they are not subsidiaries);

(ii) joint ventures and joint operations structured through a separate vehicle of a joint venturer or joint operator that presents financial statements, that are not separate financial statements, applying IFRS Standards;

(iii) associates of an investor that presents financial statements, that are not separate financial statements, applying IFRS Standards;

(iv) parent entities in their separate financial statements when the consolidated financial statements are presented, or required to be presented, applying IFRS Standards (i.e. to parent entities that are SMEs in their separate financial statements when the consolidated financial statements are presented, or required to be presented, applying IFRS Standards); and/or

(v) parent entities in their consolidated financial statements when those parents are not themselves subsidiaries;

(b) whether it should **further limit the scope** to:

(i) single entity financial statements (i.e. it would exclude subsidiaries from applying the reduced-disclosure IFRS Standard if the subsidiary is required (e.g. legal requirements in some jurisdictions) to present consolidated financial statements or financial statements in which the investments in associates or joint ventures are required by IAS 28 to be accounted for applying the equity method); and/or

(ii) subsidiaries with a parent that presents consolidated financial statements applying IFRS Standards (i.e. to avoid being applied by a subsidiary with a parent applying a different GAAP).

6 In the agenda papers for those meetings, the IASB Staff recommended that the scope of the reduced-disclosure IFRS Standard should not be extended to all SMEs, but be restricted to entities that, at the end of their reporting period, are subsidiaries of a parent presenting consolidated financial statements applying IFRS Standards and that the scope not be limited to single entity financial statements.

7 In January 2021, the IASB tentatively decided that only subsidiaries that are SMEs should be eligible to apply the reduced-disclosure IFRS Standard, and that the IASB would invite comments on the proposed scope of the IFRS Standard. The IASB also tentatively decided that a subsidiary that is an SME would only be eligible if, <u>at its reporting date</u>, it is a subsidiary of a parent that applies IFRS Standards in its consolidated financial statements; and that the scope should not be limited to single-entity financial statements.

*The EFRAG Secretariat analysis*

8 The EFRAG Secretariat notes that during the *2015 IASB's Agenda Consultation* some stakeholders suggested that the IASB should develop an accounting regime for the financial statements of non-publicly accountable subsidiaries of listed entities that is based on 'full IFRS' recognition and measurement principles, but with reduced disclosure requirements (some national standard setters had already developed a similar regime).

9 They argued that introducing such an approach would have the potential to reduce costs in financial reporting for subsidiaries of listed groups, without removing information needed by the users of these financial statements. Considering these arguments, the EFRAG Secretariat agrees and supports developing a reduced-disclosure IFRS Standard for subsidiaries that are SMEs.

10 The EFRAG Secretariat also believes that the reduced disclosure IFRS Standard should apply to all of the financial statements of the entities within the scope of the project (i.e. separate financial statements, single entity financial statements, (sub)consolidated financial statements and/or financial statements in which the investments in associates or joint ventures are required by IAS 28 to be accounted for applying the equity method). Not allowing the use of the reduced disclosure IFRS Standard to all the types of financial statements, may lead to an entity having to provide different sets of disclosures, putting into question the usefulness of the project.

11 The EFRAG Secretariat acknowledges the benefits of widening the scope to other entities that have to submit information to a reporting entity that prepares consolidated financial statements under IFRS. In particular, the benefits of widening the scope to associates, joint ventures and joint operations that are SMEs and submit financial information prepared applying IFRS Standards to its joint venturer, joint operator or investor (which need the information for consolidation purposes, application of the equity method of accounting, etc).

12 The IASB could also consider extend the scope of the project to all entities that do not have public accountability. This would have the benefit of allowing many entities to move from local GAAP to IFRS Standards (rather than IFRS for SMEs Standard).

13 However, the EFRAG Secretariat is concerned that widening the scope of this project could make *IFRS for SMEs* less relevant and attractive for SMEs.

14 It is also likely that these stakeholders would make more calls for a stable and simplified platform in terms of presentation, recognition, measurement and disclosures within IFRS Standards. Finally, EFRAG considers that if the IASB would were to widen the scope, it should start a new research on the effects of such IFRS Standard, such as:

(a) Would a reduced-disclosure IFRS Standard be adopted by jurisdictions and applied by the entities under the new scope?

(b) Can the IASB utilise the disclosure requirements of the *IFRS for SMEs* Standard with only minimal tailoring for the entities under the new scope?

(c) How can the project benefit the entities under the new scope of the project?

15 Nonetheless, the EFRAG Secretariat notes that the IASB will include a question to constituents on the scope.

**Questions for EFRAG TEG**

16 Do EFRAG TEG members agree with the EFRAG Secretariat analysis?

17 Do EFRAG TEG members have any comments on scope of the project?

**Topic 2: How to adapt the disclosure requirements of the IFRS for SMEs Standard?**

18 As mentioned above, the IASB tentatively decided to use the disclosure requirements from the IFRS for SMEs Standard as the starting point.

19 In addition, the IASB tentatively decided the following principles for when and how to adapt the disclosure requirements of the *IFRS for SMEs* Standard:

(a) **if there are no recognition and measurement differences between the *IFRS for SMEs* Standard and IFRS Standards**, then no changes to the disclosure requirements, <u>even if a disclosure requirement was added to an IFRS Standard since the IFRS for SMEs Standard was developed</u>; and

(b) **If there are recognition and measurement differences between the *IFRS for SMEs* Standard and IFRS Standards**, consider the principles in paragraph BC157 of the *IFRS for SMEs* Standard (see paragraph 20 below) and adapt the disclosure requirements if supported by one of the principles.

20 Paragraph BC157 of the IFRS for SMEs Standard sets out the principles that guide the IASB when determining which disclosures to include in the *IFRS for SMEs* Standard. Paragraph BC157 of the IFRS for SMEs Standard states:

(a) *"Assessing disclosures on the basis of users' needs was not easy, because users of financial statements tend to favour more, rather than fewer, disclosures. The Board was guided by the following broad principles:*

(i) *Users of the financial statements of SMEs are particularly interested in information about short-term cash flows and about obligations, commitments or contingencies, whether or not recognised as liabilities. Disclosures in full IFRSs that provide this sort of information are necessary for SMEs as well;*

(ii) *Users of the financial statements of SMEs are particularly interested in information about liquidity and solvency. Disclosures in full IFRSs that provide this sort of information are necessary for SMEs as well;*

(iii) *Information on measurement uncertainties is important for SMEs;*

(iv) *Information about an entity's accounting policy choices is important for SMEs;*

(v) *Disaggregation of amounts presented in SMEs' financial statements are important for an understanding of those statements; and*

(vi) *Some disclosures in full IFRSs are more relevant to investment decisions in public capital markets than to the transactions and other events and conditions encountered by typical SMEs."*

21 The EFRAG Secretariat includes some examples below on how to apply the principles described above when adapting, or not, the disclosure requirements of the IFRS for SMEs Standard.

| IFRS Standard | IFRS for SMEs Standard | Adaptations |
|---|---|---|
| IFRS 8 *Operating Segments* | Section 3 *Financial Statement Presentation.*<br><br>Section 3 of *IFRS for SMEs* is based on IAS 1 *Presentation of Financial Statements*. Nonetheless, paragraph 3.25 of *IFRS for SMEs* states that 'this Standard does not address presentation of segment information'. | ***IFRS for SMEs* does not address presentation of segment information**.<br><br>There is a need to consider the principles in paragraph BC157 of the *IFRS for SMEs* Standard (see paragraph 20 above) and adapt the disclosure requirements. For example, paragraph 3.25 would have to be adapted and paragraphs of IFRS 8 may be added for completeness. |
| IFRS 16 *Leases* | Section 20 *Leases* | **There are significant recognition and measurement differences** |

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|---|---|---|
| | Section 20 is based on IAS 17 *Leases* | **between the IFRS for SMEs Standard and IFRS Standards**<br>There is a need to consider the principles in paragraph BC157 of the *IFRS for SMEs* Standard and adapt the existing disclosure requirements (particularly terminology).<br>Some paragraphs may be added because of new disclosure requirements in IFRS 16 if supported by BC157 of IFRS for SMEs. |
| IAS 10 *Events after the Reporting Period* | Section 32 *Events after the End of the Reporting Period*.<br>This section is based on IAS 10 *Events After the Reporting Period* | **IFRS for SMEs and IFRS Standard are aligned.**<br>However, the IFRS for SMEs Standard does not require separate classification of assets as held for sale. Therefore, when considering non-adjusting events after the end of the reporting period that would generally result in disclosure, the disclosures in IFRS for SMEs may be adapted to better reflect IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* if supported by BC157 of IFRS for SMEs. |
| IAS 36 *Impairment of Assets* | Section 27 *Impairment of Assets*<br>Section 27 is based on IAS 36 *Impairment of Assets* and IAS 2 *Inventories*. | **IFRS for SMEs and IFRS Standard are fairly aligned.**<br>However, there are some recognition and measurement differences between the *IFRS for SMEs* Standard and IFRS Standards. There is a need to consider the principles in paragraph BC157 of the *IFRS for SMEs* Standard and adapt the disclosure requirements when there are differences. For example, some paragraphs from IAS 36 may be added.<br>In addition, some paragraphs may be reallocated as inventories are outside the scope of IAS 36. |
| IAS 38 *Intangible Assets* | Section 18 *Intangible Assets other than Goodwill* | **There are significant recognition and measurement differences between the IFRS for SMEs Standard and IFRS Standards**<br>There is a need to consider the principles in paragraph BC157 of the *IFRS for SMEs* Standard and adapt the disclosure requirements. |

22 The IASB staff is preparing reduced-disclosure requirements on this basis.

*The EFRAG Secretariat analysis*

23 The EFRAG Secretariat acknowledges the challenges of using the disclosures from *IFRS for SMEs* as a starting point as there are significant recognition and

measurement and other differences between the IFRS for SMEs Standard and IFRS Standards. In particular:

(a) the omission of certain topics (e.g., earnings per share; interim financial reporting; segment reporting; insurance; and assets held for sale);

(b) the omission of certain accounting options in IFRS for SMEs;

(c) the use of accounting options not available in full IFRS Standards and numerous built-in exemptions on the grounds of undue cost or effort, impracticability or inability to measure reliably in IFRS for SMEs;

(d) the use of different recognition and measurement principles (e.g. amortisation of goodwill);

(e) the use of different terminology in IFRS for SMEs;

(f) use of an older version of IFRS Standards in IFRS for SMEs (not all new IFRS standards and amendments such as IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers*, IFRS 16 *Leases* and IFRS 17 *Insurance Contracts* have not been incorporated into the IFRS for SMEs. For example, Section 20 *Leases* is still based on IAS 17 *Leases*).

24 Therefore, the EFRAG Secretariat welcomes the proposal to use the guidance in paragraph BC157 of the *IFRS for SMEs* Standard sets out the principles that guided the IASB when it determined which disclosures to include in the IFRS for SMEs Standard on the basis of users' needs.

25 Nonetheless, the EFRAG Secretariat considers that a future IFRS Standard on reduced disclosures will **need to be completely independent from the *IFRS for SMEs*** (i.e., use only the IFRS for SMEs as a starting point), particularly on the key principles/framework for developing the reduced-disclosure IFRS Standard.

26 Therefore, the EFRAG Secretariat considers that the principles for developing the reduced-disclosure IFRS Standard should be clearly described in the new IFRS Standard or its the Basis for Conclusions (preferably in a separate section) and not just a cross reference to paragraph BC157 of *IFRS for SMEs*. More specifically, the IASB should:

(a) explain that the starting point of those principles were paragraph BC157 of IFRS for SMEs. This to avoid any cross references or insertion of paragraph BC157, as it is, in the new IFRS Standard.

(b) present its key principles, which should be improved and more focused on the entities that are within the scope of this project (i.e., more focused on the information needs of users and shareholders/parents of the entities within the scope of this project). Else, the principles (based on IFRS for SMEs) will not be aligned with the scope of the project (i.e. subsidiaries that are SMEs). This would also raise the risk of having opposite views from users of IFRS for SMEs vs IFRS Standards; and

(c) should also reflect the main objective of the project which is reduction of cost for preparers.

27 In addition, as better explained in paragraph 32 below, **the EFRAG Secretariat considers that the IASB should consider all the existing disclosure requirements in IFRS Standards in the light of BC157** (not only when there are recognition and measurement differences between IFRS for SMEs and IFRS Standards).

| **Questions for EFRAG TEG** |
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| 28 Do EFRAG TEG members agree with the EFRAG Secretariat analysis? |
| 29 Do EFRAG TEG members have any comments on how to adapt the disclosure requirements of the IFRS for SMEs Standard? |

**Topic 3: Should there be exceptions to the process for adapting disclosure requirements**

30 When preparing reduced-disclosure requirements on the basis described in paragraph 18 and 20 above, the IASB identified a set of disclosure requirements where it tentatively decided to depart from the agreed approach to adapting disclosure requirements. That is:

(a) to adapt disclosures although there are no recognition and measurement differences between the IFRS for SMEs Standard and IFRS Standards (but supported by paragraph BC157). Particularly in cases where:

(i) new IFRS Standards or amendments have been implemented;

(ii) there are disclosure requirements in the IFRS for SMEs Standard that are not in IFRS Standards;

(b) not adapt or introduce disclosures even if supported by BC157.

31 More specifically, in the cases described below

| **Disclosure improvements in IFRS Standards not included in the *IFRS for SMEs* Standard (e.g. Section 20 *Leases* still based on IAS 17 *Leases*)** | |
|---|---|
| *IFRS 12 Disclosure of Interests in Other Entities – investment entities* | In IFRS a subsidiary of an investment entity that is itself an investment entity is accounted for at fair value through profit or loss. In *IFRS for SMEs* the subsidiary would be consolidated as the standard does not contain requirements for investment entities.<br><br>As there are recognition and measurement differences between the two standards, the principles in paragraph BC157 would have to be considered. Adding paragraphs 19D(b) and 19E–19G of IFRS 12 would be supported by paragraph BC157 (which would be applied by subsidiaries that are SMEs and are investment entities).<br><br>However, the IASB tentatively decided to exclude these disclosure requirements so that investment entities are not required to make disclosures that other entities are not required to make (paragraphs 14–17, 30, 31 and B26(a) of IFRS 12 require similar information but were not included because they did not stem from a recognition or measurement difference). |
| *IAS 7 Statement of Cash Flows* | The IFRS for SMEs Standard is not aligned with the 2016 amendments to IAS 7 (paragraphs 44A–44E).<br><br>The IASB tentatively decided to include a simplified version of paragraphs 44A–44E in its proposals for a reduced disclosure IFRS Standard by requiring a reconciliation between the opening and closing balances of liabilities arising from financing activities (this would |

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| | avoid the subsidiary needing to make judgement on the level of disaggregation required. (full IFRS does not to require a reconciliation but notes that a reconciliation is one way to fulfil the disclosure requirements). |
| IFRS 7 *Financial Instruments:* | Include disclosures required by paragraphs 17, 22A, 24A of IFRS 7 (disclosure requirements introduced in new and amended IFRS Standards) |
| IFRS 13 *Fair Value Measurement* | Include disclosures required by paragraphs 93(e)(i) and 93(e)(ii) of IFRS 13 (disclosure requirements introduced in new and amended IFRS Standards). |
| IFRS 15 *Revenue from Contracts with Customers* | Include disclosures required by paragraphs 118, 119 and 120 of IFRS 15 (disclosure requirements introduced in new and amended IFRS Standards) |
| IFRS 16 *Leases* | Include disclosures required by paragraphs 53(b), 47(b) of IFRS x (disclosure requirements introduced in new and amended IFRS Standards) |
| IAS 24 *Related Party Disclosures* | include the reliefs in paragraphs 17A and 18A of IAS 24 Related Party Disclosures |
| **Disclosure requirements in the *IFRS for SMEs* Standard that are not in IFRS Standards (i.e. disclosures not required in full IFRS).** | |
| Section 28 *Employee Benefits* | Exclude paragraph 28.41(g) of the IFRS for SMEs Standard (based on an earlier version of IAS 19). |
| Section 28 *Employee Benefits* | Require subsidiaries to apply paragraphs 28.42 and 28.43 of the IFRS for SMEs (this would exceed what is currently required under the full IFRS Standards). |
| Section 15 *Investments in Joint Ventures* | Exclude paragraph 15.19(d) of the IFRS for SMEs Standard (based on IAS 31). |
| Section 3 *Financial Statement Presentation* | Require subsidiaries to apply an adapted version of paragraph 3.25 of the IFRS for SMEs Standard and combine it with an adapted version of paragraph 3 of IFRS 8 (the outcome is that if a subsidiary applies the reduced disclosure IFRS Standard and applies IFRS 8, it will be required to state that it has applied IFRS 8. However, the subsidiary would not be required to state that it had applied IFRS 8 if it had not applied the reduced disclosure IFRS Standard). |
| Section 20 Leases | Require subsidiaries to apply an adapted version of paragraph 20.14 of the IFRS for SMEs Standard (based on IAS 17) |
| **Adapt disclosure requirements in the IFRS for SMEs Standard where there have not been improvements in IFRS Standards (changes in disclosure requirement not due to a recognition or measurement difference)** | |

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| IFRS 6 *Exploration for and Evaluation of Mineral Resources* | Require subsidiaries to apply paragraph 25 of IFRS 6, which requires exploration and evaluation assets to be disclosed as a separate class of assets (even if there are not recognition and measurement differences). The IFRS for SMEs Standard does not contain an equivalent disclosure requirement. |
| Section 20 *Leases* and Section 11 *Basic Financial Instruments* | Require subsidiaries to apply paragraphs 20.13(b) and 11.42 of the IFRS for SMEs Standard. The IASB also decided that it will consider whether to align the disclosure requirements for all financial liabilities as part of the Second Comprehensive Review of the IFRS for SMEs Standard, rather than as part of the Subsidiaries that are SMEs project. |
| Section 28 *Employee Benefits* | Include an expanded version of paragraph 28.41(e) of the IFRS for SMEs Standard. |
| **Disclosure objectives - exclude disclosure objectives that are in IFRS Standards** | |

*The EFRAG Secretariat analysis*

32 The EFRAG Secretariat considers that **the IASB should consider all the disclosure requirements in IFRS Standards in the light of BC157** (not only when there are recognition and measurement differences between IFRS for SMEs and IFRS Standards).

33 The EFRAG Secretariat expects that in most cases this would result in using the disclosures already used in IFRS for SMEs. The most significant adjustments to the existing disclosures in IFRS for SMEs would be related to:

(a) improvements that have not yet been incorporated in the IFRS for SMEs Standard (from new amendments and IFRS Standards).

(b) cases where there are recognition and/or measurement differences between the two standards;

(c) the omission of certain topics in IFRS for SMEs (earnings per share; interim financial reporting; segment reporting; insurance; and assets held for sale);

(d) the use of different accounting options and exceptions in both standards.

34 Considering all the disclosure requirements in IFRS Standards in the light of BC157 would have the benefit of:

(a) including all the topics and improvements that have not yet been incorporated in the IFRS for SMEs Standard (from new amendments and IFRS Standards);

(b) not having any exceptions to the main principles;

(c) simplifying the process of updating the reduced-disclosure IFRS Standard in the future;

(d) not raising expectations of having new changes to IFRS for SMEs; and

(e) not having to define what a recognition and measurement difference is.

35 EFRAG acknowledges that when applying the principles in BC157 to the disclosures that exist in IFRS Standards, looking at the disclosures in *IFRS for SMEs* as a starting point is the most logical first step. However, the EFRAG Secretariat considers that the new reduced disclosure IFRS Standard should be an independent

document and not handcuffed to the disclosure requirements in IFRS for SMEs, which are currently a more stable platform when compared to full IFRS Standards.

36 This may result in some circumstance, the reduced disclosure IFRS Standard being updated in advance when comparing to the disclosures in IFRS for SMEs. EFRAG Secretariat considers that this inevitable if the reduced disclosure IFRS Standard wants to remain relevant. This is the only way of having consistency with full disclosures IFRS Standards, which is fundamental when an entity is reporting to its parent.

37 Thus, the EFRAG Secretariat highlights the importance of having a reduced disclosures IFRS Standard that is completely independent from IFRS for SMEs (i.e. documents being updated independently) and that this should be made clear in the new IFRS Standard, particularly on future amendments.

38 It should be clear that IFRS for SMEs was used as a starting point but that both IFRS Standards follow an independent path (even though keeping an eye on each other as both are based on the same principle although timing is different), as the new reduced disclosure IFRS for SMEs is focused on subsidiaries that are SMEs that have to report to a parent applying full IFRS (and not all SMEs).

39 Nonetheless, the EFRAG Secretariat raises some questions on how entities should apply the reduced disclosure IFRS Standard. For example:

(a) If the reduced-disclosure IFRS Standard does not address one topic, whether there is the possibility to fall back to full IFRS (e.g. IFRS 17).

(b) If an entity considers that full IFRS provides better information, whether there is the possibility to fall back to full IFRS (e.g. IFRS 9). If so, whether this means that the new reduced-disclosure IFRS Standard would be optional (for disclosures only) on a standard-by-standard basis (i.e. could be seen as a minimum compliance basis).

40 Considering this, EFRAG considers that it should be clear that these disclosure requirements would be ‘the minimum disclosure requirements for subsidiaries that are SMEs’. That is, it should be clear that entities may provide additional requirements (as in full IFRS) if considered relevant, but not obliged to provide the same or even more disclosures than what is in IFRS Standards.

**Questions for EFRAG TEG**

41 Do EFRAG TEG members agree with the EFRAG Secretariat analysis?

42 Do EFRAG TEG members have any comments on exceptions to the process for adapting disclosure requirements?

**Topic 4: When should the IASB consider disclosure requirements for new and amended IFRS Standards?**

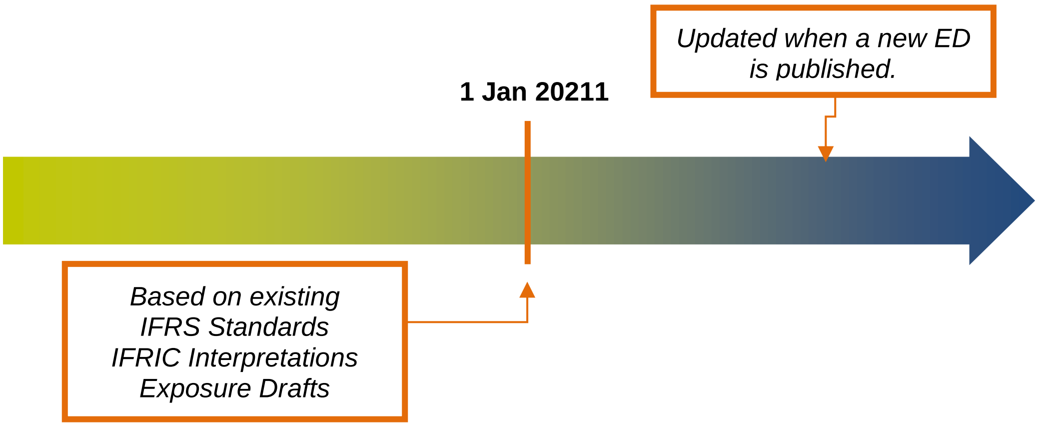
*What should be the cut-off date for the content of a consultation document?*

43 In November 2020, the IASB tentatively decided that the consultation document of the proposed reduced-disclosure IFRS Standard should include IFRS Standards and IFRIC Interpretations issued as at 1 January 2021 and exposure drafts published as at 1 January 2021, except for the Exposure Draft *General Presentation and Disclosures*.

*When should the IASB update the reduced-disclosure standard?*

44 To maintain the reduced-disclosure IFRS Standard updated, the IASB will consider amendments to the reduced-disclosure IFRS Standard when the IASB publishes an exposure draft of a new or amended IFRS Standard.

45 This is illustrated in the timeline below:




*The EFRAG Secretariat analysis*

46 In general, the EFRAG Secretariat agrees with the IASB's proposal.

47 However, the EFRAG Secretariat notes that if IASB reflects in its consultation the contents of other exposure drafts published as at 1 January 2021, this might generate a double consultation on the same topic, without reflecting the latest IASB tentative decisions on a project or may reflect tentative decisions that might be reversed in the future. Thus, the EFRAG secretariat considers that the IASB should proceed with caution on this.

48 EFRAG questions whether it would be more effective for exposure drafts already published and future exposures that will be issued before the publication of the reduced-disclosure IFRS Standard, to wait for the related new or amended IFRS Standards to be issued and then to publish a separate exposure draft on how the disclosure requirements would be adapted for a subsidiary that is an SME. This procedure would only last until the reduced-disclosure IFRS Standard is published. Subsequently, future changes can be proposed directly in future exposure drafts on other IFRS Standards.

49 In addition, as mentioned above in paragraph 38 above, it should be clear that IFRS for SMEs was used as a starting point but that both IFRS Standards follow an independent path (even though keeping an eye on each other as both are based on the same principle although timing is different), as the new reduced disclosure IFRS for SMEs is focused on subsidiaries that are SMEs that have to report to a parent applying full IFRS (and not all SMEs).

50 The EFRAG Secretariat highlights that, for endorsement purposes, that it is likely that most of the future changes to the reduced-disclosures IFRS Standards will be made through consequential amendments.

**Questions for EFRAG TEG**

51 Do EFRAG TEG members agree with the EFRAG Secretariat analysis?

52 Do EFRAG TEG members have any comments on when the IASB should consider disclosure requirements for new and amended IFRS Standards?

### Topic 5: Should the consultation document be an exposure draft or a discussion paper?

53 In January 2021, the IASB discussed whether it should publish a discussion paper or an exposure draft as a consultation document.

54 The IASB staff recommended that the consultation document should be an ED. This is because the IASB staff considered that an Exposure Draft is the best way to illustrate the:

(a) scope of the proposed reduced-disclosure IFRS Standard; and

(b) appropriateness of the disclosure requirements.

55 The IASB staff considered that a discussion paper is most useful when there is a range of possible answers or several interrelated issues to explore.

56 In the end, the IASB agreed with the IASB staff and tentatively decided to proceed directly to an exposure draft.

*The EFRAG Secretariat analysis*

57 The EFRAG Secretariat acknowledges the arguments mentioned by the IASB staff and the need to proceed timely on the request made in 2015.

58 Nonetheless, the EFRAG Secretariat notes that it is fundamental to agree on the key principles described in topic 2 and topic 3 above. These principles have not been subject to consultation until now. The same applies to the discussions on the scope of the project. Else, there is a risk of re-exposure as disagreement with the scope and key principles could have significant knock-out consequences on the drafting on the reduced-disclosures IFRS Standard.

**Questions for EFRAG TEG**

59 Do EFRAG TEG members agree with the EFRAG Secretariat analysis?

60 Do EFRAG TEG members have any comments on the IASB's decision to proceed with an exposure draft?