Subsidiaries that are SMEs
Sweep issues

Objective

1 The objective of this agenda paper is to discuss a number of sweep issues identified by the IASB Staff when balloting the Exposure Draft (ED) of the proposed reduced-disclosure IFRS Standard for subsidiaries without publicly accountability (i.e. 'subsidiaries that are SMEs').

Background

2 At its February 2021 meeting, the IASB gave its Staff permission to begin the balloting process for the ED.

3 When balloting the ED, the IASB Staff identified a few sweep issues that were discussed with the IASB Board in May 2021. These sweep issues can be split into two:

(a) recent amendments to IFRS Standards not initially considered by the IASB; and

(b) exemptions from disclosure requirements in other IFRS Standards.

Recent amendments to IFRS Standards not initially considered by the IASB

4 In November 2020, the IASB tentatively decided that the ED should include all 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.

5 These inclusions would be subject to the process developed by the IASB for adapting disclosure requirements of *IFRS for SMEs*, which are:

(a) if there are no recognition and measurement differences between *IFRS for SMES* and IFRS Standards, no changes to the disclosure requirements in *IFRS for SMEs* (i.e. the disclosure requirements in *IFRS for SMEs* would be integrated in the ED with no changes or with only minor tailoring); and

(b) if there are recognition and measurement differences between *IFRS for SMES* and IFRS Standards, consider the principles in BC157 of the *IFRS for SMEs* when adapting the disclosure requirements (i.e. the disclosure requirements in IFRS Standards would be integrated and simplified in the ED in light of the principles included in paragraph BC157 of *IFRS for SMEs*).

6 In May 2021, the IASB staff recommend that the following recent amendments to IFRS Standards should be reflected in the ED:

(a) **Disclosure of material accounting policy information**: the amendments issued in February 2021 affecting disclosure requirements in IAS 1 requiring an entity to disclose its 'material' accounting policy information rather than its 'significant' accounting policies should be reflected in the ED; and

(b) **Interest rate benchmark reform**: the amendments issued in August 2020 affecting the disclosure requirements in IFRS 7 requiring an entity to provide a description of changes to the entity's risk management strategy as a result of the interest rate benchmark reform should be reflected in the ED.

7 Applying the IASB's agreed approach for adapting disclosure requirements of *IFRS for SMEs* (as described in paragraph 5 above), the amendments to the disclosure requirements of IAS 1 and IFRS 7 would not be added into the Exposure Draft (as not linked to a recognition and measurement difference between *IFRS for SMEs* and full IFRS Standards).

8 However, the inclusion of these improved disclosure requirements would be supported:

(a) by the principles in BC157 of *IFRS for SMEs*. More specifically, the principle that information about the entity's accounting policy choices is important for users.

(b) it would ensure consistency on disclosures related to IFRS 7 *Financial Instruments: Disclosures*. As the IASB has tentatively decided to include paragraph 22A of IFRS 7 in the ED (explains the entity's risk management strategy), it would be consistent to add paragraph 24J(c) of IFRS 7 to the ED as this explains changes to the risk management strategy as a result interest rate benchmark reform.

9 After considering the IASB Staff recommendation, the IASB tentatively decided to propose an entity disclose its 'material accounting policy information' rather than its 'significant accounting policies'. This proposal is consistent with amendments to IAS 1 *Presentation of Financial Statements* issued in February 2021, which include related amendments to paragraph 21 of IFRS 7.

10 In addition, the IASB tentatively decided to propose an entity disclose changes to its risk management strategy that result from its transition to alternative benchmark rates, consistent with paragraph 24J(c) of IFRS 7.

EFRAG Secretariat analysis

11 In general, the EFRAG Secretariat welcomes that the improvements referred in paragraph 6 above will be incorporated in the reduced-disclosure IFRS Standard.

12 However, the EFRAG Secretariat highlights the risks of not considering all the existing disclosure requirements in IFRS Standards in the light of BC157, particularly recent improvements to IFRS Standards which have not yet been incorporated in IFRS for SMEs.

13 The IASB seems to include such improvements on a add doc basis. This raises the risk of not reflecting all the recent improvements to IFRS Standards in the ED, particularly when there are no recognition and measurement differences.

Questions for EFRAG TEG

14 Does EFRAG TEG agree with the IASB tentative decision to reflect the improved disclosure requirements in IAS 1 and IFRS 7, as described in paragraph 6 above?

Exemptions from disclosure requirements in other IFRS Standards

15 In accordance with the IASB's Agenda Papers in May 2021, the IASB is considering including in its ED:

(a) **a list of proposed disclosure requirements for subsidiaries that do not have public accountability**: This list of disclosure requirements would be in the main body of the ED and would reflect the disclosure requirements from the *IFRS for SMEs* with minor or significant tailoring changes; and

(b) **a list of all disclosure requirements in other IFRS Standards that an entity is exempt from** ('Appendix A').

16 The focus of this agenda paper is on this Appendix A, which exempts subsidiaries that are SMEs from disclosure requirements of other IFRS Standards. The IASB Staff provided the following arguments for Appendix A:

(a) to exempt an entity from disclosure requirements in other IFRS Standards; and

(b) to improve clarity, as some important disclosures in IFRS Standards are located together with presentation requirements (e.g. an entity may present information either on the face or in the notes) or with transition requirements. Such disclosures would not be included in main body of the ED.

17 The IASB Staff received the following comments from reviewers:

(a) the Appendix A is helpful in the consultation phase but unnecessary in the requirements themselves;

(b) the Appendix A is unnecessary as the draft Standard defines what should be disclosed for each IFRS Standard;

(c) as a general comment, and in light of Appendix A, it might be simpler to:

(i) asterisk (*) each disclosure requirement in the IFRS Standards for which an exemption is being given;

(ii) include a statement in IAS 1 that asterisked disclosure requirements in any IFRS Standard need not be given by entities meeting the eligibility criteria (as set out in the Exposure Draft); and

(iii) to the extent the draft Standard includes any disclosure requirements not otherwise required in any IFRS Standards to also identify in IAS 1 such disclosure requirements stating that eligible entities must provide those ones instead of asterisked ones

18 After considering the feedback received from reviewers and the IASB Staff recommendation, the IASB tentatively decided to include in the Exposure Draft an appendix listing all disclosure requirements in IFRS Standards from which an entity applying the reduced-disclosure Standard is exempt.

EFRAG Secretariat analysis

19 When considering paragraph 15 above, the EFRAG Secretariat notes that an entity electing to apply the proposals included in the ED, it will have to apply **both:**

(a) the disclosure requirements included in the main boy of the forthcoming ED; **and**

(b) the disclosure requirements included in other IFRS Standards that are not mentioned in Appendix A (e.g. the disclosure requirements included beneath the presentation requirements in other IFRS Standards).

20 This means that to ensure completeness, subsidiaries that are SMEs would have to:

(a) comply with the disclosure requirements included in the main body of the forthcoming ED; and

(b) scan for and comply with the disclosure requirements in other IFRS Standards that are not mentioned in Appendix A.

21 Therefore, in the EFRAG Secretariat's view, Appendix A will have a crucial compliance role (and not simply to improve clarity) as it will require subsidiaries that are SMEs to include both (i) the disclosure requirements included in the main body of the ED and (ii) specific disclosure requirements in other IFRS Standards (when not mentioned in Appendix A).

22 The EFRAG Secretariat finds this approach complex and confusing for subsidiaries that are SMEs. We question whether such an approach is in line with the main objective of the standard to reduce costs and reach simplifications for such entities. We highlight the importance of having an independent and stand-alone reduced-disclosure IFRS Standard that focuses on the disclosure needs of Subsidiaries that are SMEs. That is, a reduced-disclosure IFRS Standard that clearly identifies all the disclosure requirements that subsidiaries that are SMEs need to comply to, so that it is simple for subsidiaries to apply.

23 Consequently, EFRAG would prefer that the IASB would refer to all the required disclosures in the main body of the ED (organised by IFRS Standard), including cross references to disclosures in other IFRS Standards when necessary.

24 Such an approach would ensure completeness and Appendix A could be retained for information purposes only.

Questions for EFRAG TEG

25 Does EFRAG TEG agree with the EFRAG Secretariat analysis?