EFRAG

European Financial Reporting Advisory Group

EFRAG TEG meeting
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Paper 04-01
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Subsidiaries without Public Accountability
Cover Note

Objective

1 The objective of the session is to:

(a) discuss the EFRAG Secretariat proposal for EFRAG's Draft Comment Letter on the ED (the DCL) on the basis of the key messages proposed by the EFRAG Secretariat; and

(b) recommend EFRAG' Comment Letter to the EFRAG Board for approval. (The EFRAG Board will be asked to approve the DCL in a written procedure).

Agenda Papers

2 In addition to this cover note, agenda papers for this session are:

(a) Agenda paper 04-02 – EFRAG Draft Comment Letter EFRAG (DCL).

Background on the IASB's Project

3 In the 2015 Agenda Consultation, a number of respondents called for the IASB to permit subsidiaries to apply IFRS Standards but with reduced disclosure requirements. These respondents noted that the use of the IFRS for SMEs Standard is not attractive for subsidiaries that report to their parent for consolidation purposes and apply the recognition and measurement requirements of IFRS Standards.

4 In addition, it was argued that these subsidiaries preferred to use the recognition and measurement requirements of IFRS Standards but with less onerous disclosure requirements. Such an approach would reduce costs, without removing information needed by the users of the subsidiaries' financial statements.

5 In March 2016, the IASB added a research project to its pipeline and early in 2020 the IASB moved the project from the research programme to the standard-setting programme. On 26 July 2021 the IASB published the Exposure Draft *Subsidiaries without Public Accountability: Disclosures,* with a deadline for comments on 31 January 2022. The discussions around the scope and the definition of SMEs led the IASB to rename the project to *Subsidiaries without Public Accountability*. The IASB's documents can be found here:

(a) ***IASB Exposure Draft****: Subsidiaries without Public Accountability: Disclosures*

(b) ***Basis for Conclusions****: Subsidiaries without Public Accountability: Disclosures*

(c) ***Snapshot:*** *Subsidiaries without Public Accountability: Disclosures*

6 The objective is to develop a reduced-disclosure IFRS Standard that would apply on a voluntary basis to subsidiaries without public accountability. More specifically, an entity would be permitted to apply the reduced-disclosure IFRS Standard in its consolidated, separate or individual financial statements if, at the end of its reporting period, it:

(a) is a subsidiary;

(b) does not have public accountability (i.e. its debt or equity instruments are not traded in a public market or it is not in the process of issuing such instruments for trading in a public market; and it does not hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses);

(c) has an ultimate or intermediate parent that produces financial statements available for public use that comply with IFRS Standards.

7 The reduced-disclosure IFRS Standard would be part of full IFRS Standards and subject to endorsement in the European Union. That is, if the IASB decides to publish a new IFRS Standard with reduced disclosures requirements for subsidiaries, the European Union will need to endorse it before it comes into force.

Alternative view of Ms Françoise Flores

8 Although Ms Françoise Flores agreed with designing disclosure requirements that are specific to entities without public accountability, she opposed restricting such requirements to subsidiaries that are SMEs. In her view, all entities without public accountability should be eligible to apply the draft Standard, because:

(a) it is by design relevant to all of them;

(b) expanding the eligibility of the draft Standard would enable to entities that currently do not apply IFRS Standards nor the IFRS for SMEs Standard to apply IFRS Standards more easily,

(c) no entity and its financial statements' users should bear the cost of unnecessary disclosures,

(d) no jurisdiction should be prohibited from opening the use of the draft Standard to all entities without public accountability that the jurisdiction regulates. Instead, a jurisdiction could mandate the requirements' use by a subset of such entities.

9 Finally, Ms Françoise Flores was not convinced by the arguments provided by the IASB to restrict the scope.

10 More details can be found in paragraphs AV1 to AV8 of the Basis for Conclusions.

Background on the EFRAG TEG discussions

11 The EFRAG Secretariat has been providing regular updates to EFRAG TEG and other EFRAG Working Groups. The key topics discussed by EFRAG TEG can be found below.

Research phase (EFRAG TEG-CFSS March 2019 and EFRAG TEG May 2020)	• Would a reduced-disclosure IFRS Standard be adopted by jurisdictions and applied by subsidiaries that are SMEs? • Can the IASB use the disclosure requirements in *IFRS for SMEs* with only minimal tailoring? • How can the project benefit subsidiaries? • Moving the project to the standard-setting programme.

Scope of the project (EFRAG TEG March 2021) and (7 September 2021)	• Should the scope remain subsidiaries that are SMEs, be extended to all SMEs, somewhere between the two or be narrower?
Presentation (EFRAG TEG May 2020)	• Should the IASB require subsidiaries to apply the presentation requirements of IFRS Standards or the presentation requirements of the *IFRS for SMEs*?
Disclosures – main principles (EFRAG TEG March 2021)	• How to adapt the disclosure requirements of the *IFRS for SMEs?* • Should there be exceptions? • When should the IASB consider disclosure requirements for new and amended IFRS Standards?
Consultation document (EFRAG TEG March 2021)	• Should the consultation document be an exposure draft or a discussion paper?
Disclosures – specific issues (EFRAG TEG May 2021)	• Should the compliance statement required by IAS 1 *Presentation of Financial Statements* indicate the entities that have applied the reduced-disclosure IFRS Standard? • Should the disclosure requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* be applied by subsidiaries that are SMEs? • Should the disclosure requirements for transition provisions of new and amended IFRS Standards be applied by subsidiaries that are SMEs? • Should the disclosure requirements on combined financial statements in the IFRS for SMEs Standard be included in the reduced-disclosure IFRS Standard? • Should the reduced-disclosure IFRS Standard cover omitted topics in *IFRS for SMEs* such as disclosures on insurance contracts, regulatory deferral account balances, interim financial reports or earnings per share. • Which disclosure requirements should be proposed in the reduced-disclosure IFRS Standard for cash-generating units containing goodwill and intangible assets with indefinite useful lives?
Transition to the reduced-disclosure IFRS Standard. (EFRAG TEG May 2021)	• Is there a need to amend to IFRS 1 *First-time Adoption of International Financial Reporting Standards* or include transition provisions in the reduced-disclosure IFRS Standard? • Could the reduced-disclosure IFRS Standard be applied for the 'first time' more than once? • Is first-time application of the reduced-disclosure IFRS Standard an accounting policy choice?

Sweep issues (EFRAG TEG July 2021)	• Is there a need to reflect the improved disclosure requirements in IAS 1 (Disclosure of material accounting policy information) and IFRS 7 (Interest rate benchmark reform)? • Should the IASB include a list of disclosure requirements in other IFRS Standards which an entity electing to apply the draft Standard is exempt from?
Key messages for EFRAG DCL (EFRAG TEG July 2021) and (7 September 2021)	• Discussion on the key messages for the IASB, after considering the feedback received from other EFRAG groups, including EFRAG Board. • In September the discussion was mainly focused on the scope.

12 In July EFRAG TEG members agreed including some of the key messages described in appendix 1.

13 In In September the EFRAG Secretariat suggested a number of key messages that are highlighted in Appendix 2.

Background on the EFRAG Board discussions

14 On 7 July 2021, EFRAG Board received an update on this project and provided the following key messages:

(a) raised questions about the effects of an endorsement of the future reduced-disclosure IFRS Standard in Europe as member states currently use different options in respect of permitting or requiring IFRS in the annual accounts of listed entities and for non-publicly traded entities;

(b) observed that some European jurisdictions may be interested in this project, in particular if the scope had to be broadened to include also all the entities without public accountability, irrespective of the fact that their parent company prepares an IFRS consolidated financial statements;

(c) raised questions on the definition of 'public accountability'. For example, the interaction of the IASB's concept 'public accountability' with other existing European concepts such as 'public interest entity' and 'entities obliged to file annual accounts';

(d) one EFRAG Board member questioned why insurance companies were out of the scope of this project and considered that European insurers could also benefit from this project;

(e) a few EFRAG Board members noted that since IFRS for SMEs is not allowed in Europe, there may be demands from stakeholders to widen the scope of this project to include all SMEs (including those that do not have a parent that presents financial statements under IFRS);

(f) one EFRAG Board member referred to the IASB's project *Disclosure Requirements in IFRS Standards—A Pilot Approach*, which proposes a new approach to developing disclosure requirements in IFRS Standards. This member questioned whether the IASB's project on *Subsidiaries that are SMEs* should wait for and benefit from the results of the IASB's project on *Disclosure Requirements in IFRS Standards—A Pilot Approach;* and

(g) considered that there was a need to research on what the incremental benefit would be for the European stakeholders, whether the reduced-disclosure IFRS Standard would be adopted by jurisdictions and applied by subsidiaries that are SMEs (considering that today they already prepare a full IFRS reporting package for their parent company).

EFRAG Secretariat project planning

15 On 15 September the EFRAG Secretariat is consulting the EFRAG CFSS on the key messages to be included in EFRAG's DCL and on potential outreach in the different jurisdictions.

16 The EFRAG Secretariat will develop an outreach plan based on the feedback received.

Questions for EFRAG TEG

17 Do EFRAG TEG members have any comment including recommendations for an outreach plan?

18 Do EFRAG TEG members recommend the Comment Letter to the EFRAG Board for approval?

Appendix 1: Key messages agreed by EFRAG TEG in July 2021

Topic	Key messages
Introduction	• Welcome the IASB's proposals as the outcome of this project is likely to reduce the costs for many subsidiaries in preparing general purpose financial statements under IFRS, while maintaining information needed by the users of those financial statements. • Highlight that currently, the majority of the European countries use some or all of the options provided by the Regulation (EC) No 1606/2002 (i.e. the option to permit or require the use of IFRS in the consolidated financial statements of non-publicly-traded companies; and/or the annual account of non-publicly-traded companies). Therefore, the population of European entities that may benefit from this project is significant (include in an Appendix a table with use of options in EU) • Highlight that there are already some jurisdictions that currently use the *IFRS for SMEs* Standard as a point of reference for local accounting requirements, including disclosures.
Objective of the project	***On 7 September 2021, EFRAG TEG discussed mainly the scope of the project and considered that the alternative view from Ms Francoise Flores should be also reflected in the letter together with a question to constituents.*** • Agree with the objective of the project of specifying reduced disclosure requirements for the financial statements of subsidiaries that do not have public accountability ('subsidiaries that are SMEs'). • The IASB's project has the benefit of allowing subsidiaries that are SMEs to use the recognition and measurement requirements in IFRS Standards, but with reduced disclosure requirements. • Highlight that the structure of the future reduced-disclosure IFRS Standard is fundamental to properly support the objective of the project. That is, the importance of having a stand-alone, well-structured and simplified set of disclosure requirements that are easy to apply by subsidiaries that are SMEs. • **Question to constituents**: Question on expected incremental benefits of the IASB's proposals for the European stakeholders
Scope of the project	• **Notes to constituents**: Explain in the notes to constituents the issues related to the endorsement of a future IFRS Standard on reduced disclosures. • **Notes to constituents:** Describe how the notion of 'Public Accountability' interacts with other European concepts such as 'Public Interest Entities'. • Provide cautious support on the scope of the project (see also questions to constituents below) focusing on subsidiaries that do not have public accountability and whose parent produces

	consolidated financial statements available for public use that comply with IFRS Standards. • Acknowledge the IASB's argument in BC16(a) that the proposed scope is consistent with the feedback from stakeholders about the need for reduced disclosure requirements for Subsidiaries that SMEs. • Acknowledge the IASB's argument in BC16(f) should first test its new approach with subsidiaries that do not have public accountability and subsequently, after the implementation and application of the proposed disclosure requirements, consider whether the scope can be widened. • Refer to the limitation of only allowing the use of the reduced-disclosure IFRS Standard to entities that are subsidiaries of a parent that applies IFRS Standards in its consolidated financial statements at the end of the reporting date. • **Question to constituents**: question on the definition of public accountability versus similar European Concepts, particularly whether there would be any incompatibilities with the European legislation. • **Question to constituents**: include a question to constituents on the scope of the project (including allowing the use for all entities without public accountability), taking into account European Public Good and competition considerations. • Not clear whether a subsidiary that is an SMEs (Entity A) that prepares consolidated financial statements (i.e., it is also a parent) can elect to use the reduced-disclosure IFRS Standard if one or more (but not all) of its subsidiaries (Entities B, C, D) have public accountability. The same question applies when considering the separate financial statements of Entity A.
Electing to apply the proposed disclosure requirements	• Welcome that the proposed disclosure requirements would be optional and that subsidiaries that are SMEs can apply or revoke them at any time. • Welcome that the proposed to require a subsidiary to disclose that it has applied the reduced-disclosure IFRS Standard and require this disclosure to be located with the statement required by paragraph 16 of IAS 1.
Principles for adapting the disclosure requirements of the IFRS for SMEs Standard	• Acknowledge that using *IFRS for SMEs* as the starting point for the reduced-disclosure IFRS Standard has the benefit of ensuring that the disclosure requirements are sufficient to meet the needs of users of subsidiaries that do not have public accountability (when there are no measurement or recognition differences) and has the benefit of minimising the work that stakeholders and the IASB need to do (when there are measurement and recognition differences). • Consider that the key principles proposed by the IASB should encompass cost-benefit considerations, including reduction of costs for preparers, which is one of the main objectives of the project. For example, the principle of reduction of costs for preparers is implicitly used when the IASB tentatively decided

	that the 'disclosure objectives' included in IFRS Standards are less likely to pass the cost-benefit test than for companies(parents) traded in a public market. • Highlight the risks of not considering the existing disclosure requirements in IFRS Standards in the light of BC157 when there are no recognition and measurement differences between IFRS for SMEs and IFRS Standards <u>but</u> there are differences in timing between the two (i.e., the risk of increasing the number of exceptions and inconsistencies as only some, but not all, of those recent improvements to disclosure requirements in IFRS Standards are included in the ED). EFRAG notes that more than 15 amendments to IFRS Standards have been issued since 1 January 2016 (IFRS for SMEs was last updated in 2015). • In terms of cut-off date, the IASB should proceed with caution in regard to including in its consultation document the exposure drafts published by the IASB as at 1 January 2021 (e.g. IASB's Exposure Draft ED/2020/4 *Lease Liability in a Sale and Leaseback*). This may generate a double consultation on the same topic, not reflect the IASB's latest tentative decisions on a project and may reflect tentative decisions that might be reversed in the future
Exceptions to the principles for adapting the disclosures	• Acknowledges the challenges of this project and that specific exceptions may be needed to improve the relevance of the information provided or reduce costs for preparers. • The list of exceptions to the process for adapting disclosure requirements for a possible reduced-disclosure IFRS Standard in the basis for conclusions seems to be incomplete. For example, the IASB's approach for IAS 8 and IFRS 17 seem to be an exception to the principle of tailoring the IFRS for SMEs when there are measurement and recognition differences and have not been included in the list as an exception. • **Disclosure objectives**: The IASB should consider the interaction between its project on reduced disclosures for subsidiaries (a project where the emphasis is put on having a list of simplified disclosures for subsidiaries) with the project *Disclosure Requirements in IFRS Standards A Pilot Approach* (project where the emphasis is put on defining the disclosure objectives and not on the list of disclosures).
Disclosure requirements when transitioning from other GAAP to IFRS Standards and electing to apply the reduced-disclosure IFRS Standard	• Agree with the IASB's approach that when applying IFRS Standards for the first time and simultaneously electing to apply the reduced-disclosure IFRS Standard, a subsidiary would apply the disclosure requirements proposed in the ED, which would be based on Section 35 of IFRS for SMEs but adapted in accordance with the IASB's adaptation principles. • Agree that there is no need to amend IFRS 1 for when a subsidiary applies IFRS Standards for the first time and elects to apply the reduced-disclosure IFRS Standard.

(Interaction with IFRS 1)	
Disclosure requirements when electing to apply the reduced-disclosure IFRS Standard and the previous financial statements were prepared applying IFRS Standards	• Agree that transition provisions are not needed when an entity elects to apply the reduced-disclosure IFRS Standard and the previous financial statements were prepared applying full IFRS Standards. • Agree that in the first financial statements in which a subsidiary ceases to apply the reduced-disclosure IFRS Standard and applies IFRS Standards with full disclosures, a subsidiary should be required to provide comparatives for the disclosures not included in the previous years' financial statements.
Disclosure requirements for transition provisions of new and amended IFRS Standards	• Welcome the IASB tentative decision on disclosure requirements for transition provisions of new and amended IFRS Standards to be applied by subsidiaries that are SMEs that elect to apply the reduced-disclosure IFRS Standard. • As these disclosures would not be inside the reduced-disclosure IFRS Standard itself (but still required if not listed in appendix A), recommend references in the main body of the reduced-disclosure IFRS Standard to the transition provisions in other IFRS Standards, particularly when a new IFRS Standard is issued.

Disclosure requirements (organised by IFRS Standard)	*[Based on the IASB's tentative decisions]*
	• **IFRS 12**: by not including the disclosure requirements on combined financial statements from IFRS for SMEs, this project raises the wider issue of lack of disclosure requirements for combined financial statements in IFRS Standards;
	• **IFRS 14**: Carveout considerations regarding IFRS 14 *Regulatory Deferral Accounts.*
	• **IFRS 14:** highlights that the Rate Regulated Activities (RRA) project is already at the stage of Exposure Draft (issued in January 2021) and that the disclosure requirements in the ED are much more detailed than in IFRS 14 and would most probably need to be simplified to reflect the needs of subsidiaries that are SMEs. Recommend that the developments of the RRA project are closely monitored by the IASB staff. Should the final RRA standard be issued before the reduced-disclosure IFRS Standard, the provisions of this new RRA Standard and not IFRS 14 should be analysed and included in the reduced-disclosure IFRS Standard
	• **IAS 36:** the following information could be required when calculating unit's (group of units') recoverable amount:
	  o the period over which management has projected cash flows;
	  o the growth rate used to extrapolate cash flow projections; and
	  o the discount rate(s) applied to the cash flow projections.

	• **IAS 36:** detailed information about impairments and reversal of impairments, even when using a reduce-disclosure IFRS Standard. For example, provide information at segment level when IFRS 8 is applied, the events and circumstances that led to the recognition or reversal of the impairment loss, etc.);
Omitted topics from IFRS for SMEs	*[Based on the IASB's tentative decisions]* • **IFRS 6**: Exploration and evaluation assets are quite significant in value and if a company is in this field of activities, it would most probably be the only activity it is engaged in. This raises the question of whether full disclosures on IFRS 6 should be required (i.e. require paragraphs 23 to 25 of IFRS 6 rather than simply require paragraph 25 of IFRS 6). • **IFRS 17**: The arguments for not proposing the reduced disclosure requirements for insurance contracts are not compelling and highlight the importance of consulting the stakeholders to identify the size of the population to which this standard might apply and what simplifications to disclosure requirements could be useful. • **Question to constituents on IFRS 17:** question on which entities that issue insurance contracts are expected to be included in the scope of the project.
Disclosure Requirements in other IFRS Standards not applicable (Appendix A)	***The IASB has now included in its ED references to the disclosures in other IFRS Standards (when applicable), therefore the EFRAG Secretariat has updated this section in agenda paper 01.02. Thus, the following key messages from previous EFRAG TEG meetings will not be considered when drafting the DCL:*** • *Express concerns that when an entity elects to apply the IASB proposals on reduced-disclosure requirements, it would have to:* (a) *apply the proposed disclosure requirements included in the main body of the ED; <u>and</u>* (b) *apply the disclosure requirements of other IFRS Standards which are not listed in appendix A (i.e. they would remain applicable).* • *Such an approach means that subsidiaries that are SMEs would have to apply not only the proposed disclosure requirements in the main body of the ED but would have also to scan all the disclosure requirements of other IFRS Standards which are not listed in appendix A to ensure completeness.* • *The use of Appendix A for compliance purposes seems to be complex and confusing for subsidiaries that are SMEs.* • *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 that it is simple for them to apply.* • *Would prefer that the IASB refers to all the required disclosures in the main body of the ED, including cross references to the*

	disclosures in other IFRS Standards when necessary. Such an approach would ease compliance and Appendix A could be retained for information purposes only. • ***Question to constituents****: question whether they consider the IASB approach practical and easy.*

Appendix 2: Key messages proposed by EFRAG Secretariat on 7 September 2021

Topic	Key messages
Introduction	• The IASB's proposal would have the benefit to encourage subsidiaries without public accountability to apply IFRS Standards, which would significantly increase the quality of their financial statements and ease their use (*as noted by EFRAG User Panel*).
Objective of the project	• No additional key messages to those in appendix 1 of agenda paper 01.01.
Scope of the project	• The IASB's proposals uses the concept **'available for public use'** (as in IFRS 10). Some European jurisdictions allow the use of IFRS in the annual and consolidated financial statements of non-publicly traded companies. These financial statements are often 'available for public use' as they have to be officially filed (e.g. commercial register) and published in an official journal or website. However, in cases where consolidated financial statements of the parent are not available for public use, its subsidiaries would not be able to apply the reduced disclosure requirements. Thus, the IASB's proposals would put pressure on the definition of 'available for public use'.
Exceptions to the principles for adapting the disclosures	• EFRAG acknowledges the IASB's arguments explained in paragraph BC41 of the Basis for Conclusions to exclude the disclosure objectives from the draft Standard. However, it is not clear whether the disclosure requirements included in the ED take into account the disclosure objectives. That is, whether and to what extent the proposed disclosure requirements address any or all the disclosure objectives described in other IFRS Standards. • Question to EFRAG TEG members below.
Disclosure requirements (organised by IFRS Standard)	• **IFRS 1**: highlight that the disclosure requirements in paragraphs 24(c) and paragraph 25(a) of the ED do not exist in IFRS 1. Although such disclosures may be useful, the IASB's approach seems to result in having subsidiaries being required to provide more disclosures than when applying full IFRS Standards. • **IFRS 1**: for users of financial statements that are very focused on cash flows it may be an issue that the ED does not give emphasis to material adjustments to the statement of cash flows (as mentioned in paragraph 25 of IFRS 1). • **IFRS 2:** In 2016 the IASB issued *Classification and Measurement of Share-based Payment Transactions* (Amendments to IFRS 2), which introduced clarifications and additional disclosures on share-based payment transactions with a net settlement feature for withholding tax obligations. The ED does not reflect such improvements because when

	recognition and measurement requirements are the same, the IASB's approach does not result in tailoring the *IFRS for SMEs* Standard for recent improvements made to IFRS Standards. EFRAG questions whether such disclosures would be assessed as non-essential when considering the principles in paragraph BC157 of the IFRS for SMEs as these disclosures provide information on future cash flow effects associated with the share-based payment arrangement. • **IFRS 3:** Users of financial statements usually find useful the information about the primary reasons for the business combination as in paragraph B64(d) of IFRS 3. Such information would not be costly and relevant for users of financial statements • **IFRS 3:** Business combinations are often incomplete at the end of the year. Therefore, if a business combination is not finalised at the end of the reporting period, this should be disclosed (as in paragraph B67(a) of IFRS 3). EFRAG questions whether such disclosures would be assessed as non-essential when considering the principles in paragraph BC157 of the Basis for Conclusions to the IFRS for SMEs Standard as there is a measurement uncertainty (i.e. provisional amounts are used for the items for which the accounting is incomplete). • **IFRS 3:** if there is a business combination in stages and the amount recognised in PL is significant, it should be disclosed as in B64(p). • **IFRS 6**: *No additional key messages to those in appendix 1 of agenda paper 01.01.* • **IFRS 7**: Question to EFRAG TEG members below • **IFRS 12**: users of financial statements tend to find useful disclosures that help them understand the composition of a group, as required in paragraph 10(a)(i) of IFRS 12, even if in a summarised way. • **IFRS 12:** users of financial statements may find useful disclosures on **consolidated and unconsolidated structured entities**, including events or circumstances that could expose the reporting entity to a loss (eg liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or provide financial support) as in paragraph 14 of IFRS 12. • **IFRS 12:** The IASB has not included the requirement in IFRS for SMEs for a parent entity to disclose the <u>carrying amount</u> of investments in subsidiaries that are not consolidated at the reporting date, in total, either in the statement of financial position or in the notes as in paragraph 9.23A of IFRS for SMEs. Such information could be relevant for users of financial statements. • **IFRS 14**: *No additional key messages to those in appendix 1 of agenda paper 01.01.*

	• **IFRS 15:** the information about significant judgements, and changes in the judgements, made in applying IFRS 15 to the contracts that significantly affect the determination of the amount and timing of revenue from contracts with customers could be included (as in paragraph 123 of IFRS 15) as it is relevant for users and related to measurement uncertainty. • **IFRS 16:** the information (by lessees) on leases with variable payment (paragraph 100(e) of the ED) could be expanded by including the reference *'…variable lease payments <u>(e.g., expenses relating to variable lease payments not included in the measurement of lease liabilities</u>, …'* or by including a separate line (as required for lessors in paragraph 106(e) of the ED) as it is relevant for users to assess future cash flows (similar to paragraph 53(e) of IFRS 16) • **IFRS 16:** the disclosures required in paragraph 109 of the ED on sale and leaseback transactions: lessees and lessors could be expanded to mention information on *'and gains or losses arising from sale and leaseback transactions*.' • **IFRS 16:** suggest that the IASB refers to paragraph 56 of IFRS 16 in the footnote when referring requirements that remain applicable (if right-of-use assets meet the definition of investment property, a lessee shall apply the disclosure requirements in IAS 40 *Investment Property*). • **IAS 12:** the disclosures required in paragraph 147(c) of the ED could ED be presented in the form of a numerical reconciliation as is required under paragraph 81(c) of IAS 12 when explaining the relationship between tax expense (income) and accounting profit (usually this reconciliation is highly valued by users) and take into account the guidance in paragraph 85 of IAS 12 on the most meaningful rate for users of financial statements. • **IAS 12:** disclosures on discontinued operations, as in paragraph 81(h) of IAS 12, are usually very relevant for users of financial statements. • **IAS 12:** when an entity has significant investments, disclosures on the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint arrangements, as in paragraph 81(f), provide relevant information to users of financial statements. • **IAS 12:** suggest that the IASB also requires disclosures on evidence of deferred tax asset (DTA), as required in paragraph 82 of IAS 12. For users it is vital to have evidence that supports the recognition of DTA's as this is a very subjective area. • **IAS 19:** to ensure consistency and comparability, suggest that the IASB specifies how to quantify the principal actuarial assumptions used, as in paragraph 144 of IAS 19 (as an absolute percentage, and not just as a margin between different percentages and other variables).

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IAS 36: paragraph 193 of the ED could be expanded to include a ‘description of the cash-generating unit (such as whether it is a product line, a plant, a business operation, a geographical area, or a reportable segment as defined in IFRS 8)’ as in paragraph 130(d) of IAS 36. Such information would not be costly and relevant for users of financial statements.
IAS 37: paragraph 196(a) of the ED could be expanded to mention the increase during the period in the discounted amount arising from the passage of time, as in paragraph 84(e) of IAS 37.

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<tr><td>Omitted topics from IFRS for SMEs</td><td>

No additional key messages to those in appendix 1 of agenda paper 01.01.

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<tr><td>Disclosure Requirements in other IFRS Standards not applicable (Appendix A)</td><td>

Acknowledge that when an entity elects to apply the IASB proposals on reduced-disclosure requirements, it would have to:
(a) apply the proposed disclosure requirements included in the main body of the ED; <u>and</u>
(b) apply the disclosure requirements of other IFRS Standards which are set out in a footnote next to the subheading of the IFRS Standard to which they relate and not listed in appendix A.
Such an approach means that subsidiaries without public accountability have to apply not only the proposed disclosure requirements in the main body of the ED but also all the disclosure requirements of other IFRS Standards which are set out in a footnote next to the subheading of the IFRS Standard to which they relate.
EFRAG supports such an approach and highlights the importance of having an independent and stand-alone reduced-disclosure IFRS Standard that focuses on the disclosure needs of subsidiaries without public accountability. That is, a reduced-disclosure IFRS Standard that clearly identifies all the disclosure requirements that subsidiaries without public accountability need to comply to that it is simple for them to apply.
Question to constituents: question whether they consider the IASB approach practical and easy.

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