Subsidiaries without Public Accountability
Key messages

Objective

1 The objective of the session is to discuss the remaining key messages for EFRAG Draft Comment Letter (DCL) after the publication of the IASB's Exposure Draft *Subsidiaries without Public Accountability: Disclosures* (ED). The discussion will mainly relate to detailed requirements for disclosures in relation to individual IAS/IFRS standards (paragraphs 22-213 of the ED).

Introduction

2 In July 2021, EFRAG TEG already discussed some of the key messages based on the IASB's tentative decisions (please see appendix 1 of agenda paper 01.01).

3 More detailed comments have been included in the table below with the publication of the ED. The detailed requirements for disclosures in relation to individual IAS/IFRS standards are now published in the ED. This agenda paper only focuses on these new detailed comments to complete or in a few cases adjust the key messages for the EFRAG Draft Comment Letter (DCL).

4 Nonetheless, the EFRAG Secretariat highlights that the assessment of users' needs in terms of disclosures (i.e. whether the IASB's proposed disclosures are sufficient) is difficult and subjective. Therefore, the EFRAG Secretariat expects that during our consultation period EFRAG will receive more input on disclosures that should be added or deleted.

Key messages for DCL (in addition to those in appendix 1 of agenda paper 01.01)

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'.
Electing to apply the proposed disclosure requirements	• No additional key messages to those in appendix 1 of agenda paper 01.01.
Principles for adapting the disclosure requirements of the *IFRS for SMEs*	• No additional key messages to those in appendix 1 of agenda paper 01.01.
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 when transitioning from other GAAP to IFRS Standards	• No additional key messages to those in appendix 1 of agenda paper 01.01.
Disclosure requirements when electing to apply the reduced-disclosure IFRS Standard	• No additional key messages to those in appendix 1 of agenda paper 01.01.
Disclosure requirements for transition provisions of new and amended IFRS Standards	• No additional key messages to those in appendix 1 of agenda paper 01.01.
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). • **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.
Omitted topics from IFRS for SMEs	• No additional key messages to those in appendix 1 of agenda paper 01.01.
Disclosure Requirements in other IFRS Standards not applicable (Appendix A)	• 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.

Questions for EFRAG TEG

5 Does EFRAG TEG agrees with the key messages identified above for:

(a) **the scope of the project**

Following the inputs received in the last EFRAG Board and EFRAG TEG meetings, the DCL will express only a cautious support and will include a number of questions to constituents; following the consultation EFRAG will be in a position to express a more informed view about the implications of the proposed scope. After considering the alternative view from Ms Françoise Flores in paragraphs AV1 to AV8 of the Basis for Conclusions, *do EFRAG TEG members continue to cautiously support the scope of the project?*

(b) **the exceptions to the principles for adapting the disclosures**

In question 4(b) of the ED, the IASB asks its constituents whether the information required in paragraph 130 of the draft Standard would differ from information reported by its parent?

It also asks whether consolidated financial statements regularly includes a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

Do EFRAG TEG members have any comments on the questions raised above?

(c) **the disclosure requirements (organised by IFRS Standard)**

Do TEG members agree with suggestions provided by the EFRAG Secretariat on:

- IFRS 1
- IFRS 2
- IFRS 3
- IFRS 12
- IFRS 15
- IFRS 16
- IAS 12
- IAS 19
- IAS 36
- IAS 37

(d) **the disclosure requirements (organised by IFRS Standard)**

IFRS 7: the existing disclosure requirements on financial instruments included in the IFRS for SMEs Standard are very limited. Therefore, in the ED the IASB changed and expanded significantly the disclosures requirements included in the IFRS for SMEs Standard (i.e. significant tailoring). That is, many paragraphs from IFRS 12 have been included in the ED. For example, new disclosures on reclassification, allowance account for credit losses, compound financial instruments with multiple embedded, the risk management strategy, fair value, credit risk management practices, credit risk exposure, transferred financial assets that are not derecognised in their entirety, etc.

However, some disclosures have not been included. For example, investments in equity instruments designated at fair value through other comprehensive income, offsetting financial assets and financial liabilities (in addition to those in IAS 32, etc).

Do EFRAG TEG members consider that the IASB's proposals on IFRS 7 in the ED provide enough information to users of subsidiaries without public accountability?

(e) **the omitted topics from IFRS for SMEs?**

(f) **the disclosure Requirements in other IFRS Standards not applicable (Appendix A)**

The ED includes cross-references to the main IFRS Standards when disclosure requirements are still applicable.

Do EFRAG TEG members agree with the changes to the key messages related to Appendix A?

(g) **Do you have any other comments?**