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Subsidiaries without Public Accountability Cover Note

Objective

- 1 The purpose of this session is to:
 - (a) provide an update on the IASB's discussions on this project; and
 - (b) discuss with, and ask, EFRAG FR Board members on the interaction between local regulations and the proposed IFRS Accounting Standard (draft Standard) set out in the IASB's Exposure Draft *Subsidiaries without Public Accountability: Disclosures* ('ED').

Background

- 2 On 26 July 2021 the IASB published [the ED](#) with the objective of developing a reduced-disclosure IFRS Standard that would apply on a voluntary basis to subsidiaries without public accountability.
- 3 EFRAG published its Draft Comment Letter ('DCL') on 30 September 2021 which was open for comments until 26 January 2022. In its DCL, EFRAG welcomed the ED and the IASB's efforts to reduce disclosure requirements for subsidiaries without public accountability. EFRAG also cautiously agreed with the IASB's proposed scope but recognised that there was also support for the alternative view expressed by the IASB board member Françoise Flores in the Basis for Conclusions of the ED.
- 4 EFRAG then embarked into an extensive programme of outreach events and stakeholder meetings, in partnership with other organisations. EFRAG also conducted research activities that led to the publication of two briefings focused on the applicability of the IASB's ED in the European Union.
 - (a) [Subsidiaries without Public Accountability: Disclosures. Who would be able to apply it in the EU?](#) focused on the scope of the IASB's project from an EU perspective and
 - (b) [EFRAG Secretariat study on compatibility of the EU Accounting Directive with the IASB's Exposure Draft](#) included a two-step comparison of disclosure requirements in the ED and the EU Accounting Directive.
- 5 In general, participants in outreach events and respondents to EFRAG DCL welcomed the IASB's ED and acknowledged that the IASB's efforts would ease financial reporting for eligible subsidiaries while meeting the reasonable needs of the users of financial statements. When referring to the scope, European constituents expressed mixed views, in particular on whether and to what extent the scope should be widened. European constituents also raised questions and some concerns on the interaction of the IASB's proposals with EU accounting law.
- 6 After consulting its constituents, EFRAG published its [final comment letter](#) on 25 February 2022 where it reiterated its initial support for the IASB's project and

highlighted the requests from many constituents to widen the scope. However, as there was no clear consensus whether and to what extent the scope should be widened, EFRAG suggested that the IASB continues with the current scope of the project but in parallel assesses the possibility of a scope extension. In addition, EFRAG proposed that the IASB considers clarifying the concept of holding assets in a fiduciary capacity before issuing a finalised standard.

- 7 On 14 April 2022, EFRAG issued a [feedback statement](#), which summarised the main comments received by EFRAG on its DCL to the IASB ED and explained how those comments were considered in EFRAG's FCL.
- 8 Also in April 2022, the IASB started to discuss the feedback received from comment letters and outreach events. More recently, the IASB Staff added this topic to the agenda of the Accounting Standards Advisory Forum (ASAF) meeting in July 2022.
- 9 The EFRAG TEG-CFSS members also discussed this on 29 July 2022. A summary of the feedback received is included in agenda paper 04-02.
- 10 The EFRAG Secretariat will continue to provide updates to EFRAG TEG, including discussions on the guidance on public accountability which is being currently discussed by the IASB in its *Second Comprehensive Review of the IFRS for SMEs Accounting Standard* (an exposure draft is expected on third quarter of 2022).

Agenda Papers

- 11 In addition to this cover note, the EFRAG Secretariat has uploaded the agenda paper 04-02 *Update and Interaction with IAS Regulation*.