# Subsidiaries without Public Accountability
# Cover Note

## Objective

1 The objective of the session is to provide and update and seek advice on aspects of the project *Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures* including:

(a) whether to remove the requirement that subsidiaries have to have a parent that produces consolidated financial statements 'available for public use';

(b) the approach to addressing the proposed disclosure requirements; and

(c) the structure of the Standard.

## Background of the IASB project

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. In general, most respondents agreed with the objective of the draft Standard. However, respondents had mixed views on the proposed scope of the draft Standard. Although, some respondents agreed with the proposed scope of the draft Standard, many respondents suggested a wider scope. Nonetheless, respondents had different views on what that wider scope should be. Some respondents also suggested that the IASB considers widening the scope at a later stage, for example, after the draft Standard has been effective for a period of time. After considering the feedback received, the IASB tentatively decided to confirm the scope as proposed in the draft Standard and review the scope after the draft Standard has been finalised, possibly during the post-implementation review.

9 In July 2022, the IASB discussed this project at the Accounting Standards Advisory Forum (ASAF) meeting. In preparation for that meeting, the EFRAG TEG-CFSS members discussed this project on 28 June 2022 (summary of feedback received can be found here).

10 At the ASAF meeting, some members expressed concerns on how the terms used to define the scope of the draft Standard would interact with local regulations. These members noted that:

(a) the term 'public accountability' may result in a number of challenges, including on endorsement (e.g. it is a term similar but different from the legal term 'public interest entity' (PIE)).

(b) the terms "available for public use" and "fiduciary capacity" should be clarified;

11 There were also questions on whether the benefits of applying the Standard would outweigh the costs as subsidiaries would still have to provide information for its parent's consolidated financial statements or would not be able to apply the Standard due to local legislation.

## Background of the EFRAG discussions

12 In July 2022, the EFRAG FRB also discussed this project and provided the following feedback:

(a) the focus of the discussion should be on the proposed disclosures and not so much on the scope. Several Board members considered that jurisdictions should be able to decide whether the reduced disclosure standard could be applied and or to which entities/sectors it could be applied. To allow jurisdictions to make a choice, then the scope should not be too narrow;

(b) the endorsement of the Standard in the EU would be driven by cost–benefit consideration, including the fact that for some member states, the application of IFRS at individual/separate financial statement level is not allowed; and

(c) there is a benefit at the international level even if the application of IFRS for individual financial statements of subsidiaries is not permitted in the jurisdiction of the parent entity.

## Next steps

13 The EFRAG Secretariat will continue to provide updates to EFRAG FR TEG and CFSS members, 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

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

(a) Agenda paper 07-02 – Issues Paper;

(b) Agenda paper 07-03 – IASB agenda paper - AP2_SwPAD_Cover Paper;

(c) Agenda paper 07-04 – IASB agenda paper - AP2A_SwPAD_Available for public use;

(d) Agenda paper 07-05 – IASB agenda paper - AP2B_SwPAD_Proposed disclosure requirements; and

(e) Agenda paper 07-06 – IASB agenda paper - AP2C_SwPAD_Structure of the draft Standard.