Subsidiaries without Public Accountability
Issues paper

Objective

1 The objective of this agenda paper is to seek advice on specific 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.

Financial statements ‘available for public use’

IASBs proposals in the ED and feedback received by the IASB

2 In the ED, the IASB proposed that a subsidiary would be eligible to apply the draft Standard ‘if, at the end of its reporting period, that subsidiary has a parent that produces consolidated financial statements available for public use applying IFRS Standards’. In paragraph BC20 of the Basis for Conclusions on the ED states that the qualifying criterion mentioned above is based on paragraph 4(a)(iv) of IFRS 10 *Consolidated Financial Statements*.

3 Some respondents acknowledged that the term 'available for public use' is already used in IFRS Standards, however noted that the term is fundamental to the scope criteria and suggested that additional clarification is provided. In particular, respondents asked for clarification on whether financial statements are available for public use in specific situations in their jurisdictions (e.g., access is permitted to the public on request or on payment of a prescribed fee).

4 To address the comments received, the IASB is considering whether it should:

(a) clarify the requirement ‘available for public use; or

(b) remove the requirement ‘available for public use’.

EFRAG’s position in its comment letter and feedback received

5 In its comment letter, EFRAG highlighted that some European jurisdictions allow the use of IFRS Standards 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 considered available for public use’, its subsidiaries would not be able to apply the reduced disclosure requirements. Therefore, the IASB’s proposals in this project are likely to put pressure on the definition of

'available for public use'. Considering this, EFRAG called for further application guidance in this area.

6 EFRAG did not receive specific comments from its constituents on this issue.

EFRAG's Secretariat analysis/recommendation

7 The IASB has recently concluded that the requirements of IFRS 10, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* are working as intended (in its post-implementation review). Particularly, the IASB decided that no further action was required to address the feedback on the consolidation exemption in paragraph 4 of IFRS 10. Therefore, the EFRAG Secretariat considers that it is unlikely that the IASB will be willing at this stage to amend its ED or IFRS 10 to clarify the notion of 'available for public use' as it may have unintended consequences on current application of the term in IFRS 10 and other IFRS Standards.

8 In alternative, the IASB could decide removing the requirement 'available for public use' and instead use the wording in paragraph 9.3 of the *IFRS for SMEs* Standard. This would mean that the draft Standard would state that *'a subsidiary would be eligible to apply the draft Standard if, at the end of its reporting period, its ultimate parent (or any intermediate parent) produces consolidated general purpose financial statements <u>that comply with full IFRS or with this Standard</u>.*

9 The EFRAG Secretariat considers that if the IASB does not clarify the term 'available for public use' then it should remove it and ensure that the reduced disclosures for eligible subsidiaries meet in general the needs of users (i.e., the disclosure requirements are sufficient in the absence of parent's financial statements). This would be in line with EFRAG suggestions to add a number of disclosures to the draft Standard.

10 If to be removed, then the EFRAG Secretariat suggests the following wording: *'a subsidiary would be eligible to apply the draft Standard if, at the end of its reporting period, its ultimate parent (or any intermediate parent) produces consolidated general purpose financial statements <u>that comply with full IFRS Standards</u>,* as the EFRAG Secretariat thinks that at least one parent should provide full disclosures.

Questions for EFRAG FR TEG-CFSS members

11 Do EFRAG FR TEG-CFSS members have any comments on the use of 'available for public use' in the draft Standard?

12 What are your views on removing the requirement for a parent's consolidated financial statements to be 'available for public use' from the scope of the draft Standard?

Approach to addressing the proposed disclosure requirements

IASBs proposals in the ED and feedback received by the IASB

13 The **IASB's approach** for developing the proposed reduced disclosure requirements sought to save time and resources by leveraging on the work already done when developing the disclosures in the *IFRS for SMEs* Standard. Thus, if the recognition and measurement requirements in IFRS Standards and the *IFRS for SMEs* Standard are:

(a) **the same**, the IASB used the disclosure requirements from the *IFRS for SMEs* Standard with minor tailoring.

(b) **different**, the IASB reduced the disclosure requirements in IFRS Standards by applying the same principles it used when it developed the disclosure requirements in the *IFRS for SMEs* Standard (set out in paragraph BC157 of the Basis for Conclusions of the *IFRS for SMEs* Standard).

14 Many respondents agreed with the IASB's approach to developing the proposed disclosure requirements in the draft Standard. However, some respondents expressed concerns or disagreed with the IASB's approach. More specifically, they disagreed with using the *IFRS for SMEs* Standard as the starting point and/or noted that consideration of cost–benefit trade-off was not clearly explained (some disclosures were still costly to provide).

15 In regard to the **specific disclosure requirements proposed by the IASB**, which were extensive, respondents provided many different comments. Some common themes observed include:

(a) many respondents suggested further reducing the proposed disclosure requirements (on specific disclosures, specific topics or more generically);

(b) some respondents suggested additional disclosure requirements, particularly disclosure requirements from IFRS 7 *Financial Instruments: Disclosures* and IFRS 12 (e.g. disclosure requirements about the maturity analysis for non-derivative financial liabilities applying IFRS 7 and disclosure requirements about the composition of the group when consolidated financial statements are prepared applying IFRS 12); and

(c) some respondents asked for guidance on application of the proposed disclosure requirements.

16 To address the diverse comments on the specific disclosure requirements, the IASB staff is considering the following approach:

(a) **Step 1**: Stratify comments based on the nature of disclosure requirements (e.g., whether there are recognition and measurement differences and whether it is related to an exception)

(b) **Step 2**: Assessing each comment against a set of factors (e.g., principles on users' information needs set out in BC157, cost-benefit considerations, pervasiveness of the comment and overall usefulness of information);

(c) **Step 3**: Recommendation to the IASB Board members to add, delete or clarify the proposed disclosure requirements.

EFRAG's position in its comment letter and feedback received

17 On the **IASB's approach**, EFRAG generally agreed with the IASB's approach of using the *IFRS for SMEs* Standard as the starting point. However, EFRAG highlighted 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 but there are differences in timing between the two.

18 On the **IASB's specific proposed disclosure requirements**, EFRAG highlighted that the assessment of users' needs in terms of disclosures (i.e., whether the IASB's proposed disclosures are sufficient) is difficult and subjective. Nonetheless, EFRAG suggested a number of additional disclosures whose selection was based on their relevance for users of financial statements. These disclosures were identified either by stakeholders or EFRAG Secretariat during the consulting period. Most disclosures were mainly for intermediate parents or subsidiaries that have significant investments. Thus, there would be no substantial impact to individual subsidiaries, and it would only affect a limited part of the population in the scope of the ED.

EFRAG's Secretariat analysis/recommendations

19 On the proposed process to address the comments received on specific disclosures requirements, the EFRAG Secretariat generally agrees with the IASB staff recommended approach. However, the EFRAG Secretariat would favour an approach where the starting point for the stratification mentioned in **Step 1** would

be each individual IFRS Standard (IFRS Standard-by-Standard basis). That is, the IASB staff would analyse the comments for IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS 2 *Share-based Payment*, IFRS 3 *Business Combinations*, etc taking into account the starting point of the disclosures (i.e., *IFRS for SMEs* Standard or IFRS Standards) and the level of tailoring made.

20 In addition, the IASB staff may need to consider establishing some boundaries. For example, not requiring more disclosures than those in IFRS Standards (cap) and/or not require less disclosures than those in *IFRS for SMEs* Standard (floor).

Questions for EFRAG FR TEG-CFSS members

21 What are EFRAG FR TEG-CFSS members' views on the IASB staff's suggested process to addressing comments on proposed disclosure requirements?

The structure of the Standard

IASBs proposals in the ED and feedback received by the IASB

22 The ED is currently structured as follows:

(a) **the main body** includes the proposed disclosure requirements an eligible subsidiary would apply on a IFRS Standard-by-Standard basis (i.e. the disclosures that eligible subsidiaries would be required to provide);

(b) **Appendix A** lists the disclosure requirements in other IFRS Standards that are replaced by the draft Standard (i.e. the disclosure requirements in other IFRS Standards that need not be applied by eligible subsidiaries); and

(c) **the footnotes** assist application by indicating the disclosure requirements in other IFRS Standards that remain applicable. These are generally indicated in a footnote to the subheading of the IFRS Standard to which they relate (i.e., the disclosures in other IFRS Standard that have to be applied in addition to those already in the ED).

23 In general respondents supported having a separate IFRS Standard where disclosures are organised on a standard-by-standard basis. However, respondents expressed mixed views about Appendix A and the footnotes to the subheading of the IFRS Standards to which they relate.

24 Some respondents supported **Appendix A** while others considered it confusing to preparers as they are requirements that need not be applied.

25 Some respondents agreed with the use of **footnotes** in the draft Standard to identify disclosure requirements in other IFRS Standards that remain applicable. However, most respondents disagreed with this use of footnotes because some preparers and auditors might overlook or be confused by the footnotes. Many respondents suggested the IASB either list or reproduce the disclosures requirements in the footnotes in the main body of the draft Standard.

26 To address the comments received the IASB is considering whether it should:

(a) **Appendix A: retain or delete it**? As Appendix A of the draft Standard lists the disclosure requirements in other IFRS Standards that need not be applied, it could be removed with consequential amendments made to paragraph 2 of the draft Standard, which states that an entity applies IFRS Standards except for the disclosure requirements in Appendix A. Still, there may be different benefits of retaining Appendix A as part of the final Standard.

(b) **Footnotes**: change the structure of the disclosure requirements:

(i) **Alternative A** - list references to disclosure requirements in other IFRS Standards that remain applicable in an appendix to the draft Standard (i.e., replace footnotes with a new Appendix)

(ii) **Alternative B** - list references to disclosure requirements in other IFRS Standards that remain applicable in the main body of the draft Standard (i.e. remove footnote and include all the disclosures mentioned in the footnotes in the main body)

(iii) **Alternative C** - retain footnotes (as in the ED)

(iv) **Alternative D** – simply remove the footnotes (i.e. the reference to disclosure requirements in other IFRS Standards that remain applicable) but retain Appendix A as an integral part of the draft Standard.

EFRAG's position in its comment letter and feedback received

27 EFRAG supported the IASB's approach and explained that the use of footnotes to indicate the disclosure requirements in IFRS Standard that remain applicable is a practical solution for some of the issues that arise if the IASB would incorporate all disclosure requirements in the main body of the ED (e.g., some disclosure requirements are embedded in paragraphs that also include recognition, measurement or presentation requirements).

28 Nevertheless, EFRAG acknowledged that many respondents supported incorporating all disclosure requirements (footnotes and Appendix A) in the main body of the ED and suggested that the IASB further considers the feasibility of such an approach.

EFRAG's Secretariat analysis/recommendations

29 The EFRAG Secretariat continues to consider that it is fundamental to have 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 so that it is simple for them to apply. Thus, the EFRAG Secretariat considers that Alternatives A, B and C could be used by the IASB.

30 However, the EFRAG Secretariat does not support Alternative D. The EFRAG Secretariat notes that the disclosure requirements listed in paragraphs 22-213 of the ED are not exhaustive. They would have to be read in conjunction with the exceptions listed in Appendix A and the disclosure requirements in other IFRS Standards. This could not be obvious for preparers and particularly difficult to follow.

31 Readers would expect that this IFRS Standard would include all the disclosure requirements for eligible subsidiaries as paragraph 1 of the ED states that "the objective of this draft Standard is to permit eligible subsidiaries to <u>apply the disclosure requirements in this [draft] Standard</u> and the recognition, measurement and presentation requirements in IFRS Standards".

32 Finally, the EFRAG Secretariat considers that approach D would not meet the objective of the draft Standard.

Questions for EFRAG FR TEG-CFSS members

33 What are your views on retaining Appendix A of the draft Standard as proposed in the ED?

34 Paragraphs 20–28 of the agenda paper 07-06 set out four alternatives in structuring disclosure requirements in other IFRS Standards that remain applicable.

i. Are there any other advantages or disadvantages not identified in the IASB staff preliminary analysis that you think the IASB should consider when assessing the alternatives presented in this paper?

ii. What are your views on the alternatives presented in this paper?