

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

Subsidiaries without Public Accountability: Disclosures Cover Note

Objective

- 1 The purpose of the session is to ask for EFRAG TEG's comments on the technical content of EFRAG Secretariat Briefing *Who can apply it in Europe? Subsidiaries without Public Accountability: Scope*.
- 2 The Briefing is designed to stimulate debate on the practical application of the proposals in the IASB Exposure Draft ED/2021/7 *Subsidiaries without Public Accountability: Disclosures* (ED).
- 3 The views expressed in the Briefing are tentative and reflect EFRAG Secretariat's understanding of how the proposals in the ED would apply in Europe.
- 4 The draft Briefing is provided in Agenda paper 03-02. The EFRAG Secretariat is planning to publish the Briefing later in November 2021.

Background

- 5 It is well-known that in June 2002, the European Union (EU) adopted a Regulation on the application of international accounting standards (Regulation No. 1606/2002) which provides, among other things, the option to Member States to permit or require companies to prepare their annual accounts and consolidated financial statements of non-publicly traded companies in conformity with IFRS.
- 6 In accordance with this legislation, many European countries already permit or require the use of IFRS in the annual accounts. More specifically, allow the use of IAS 27 *Separate Financial Statements* for the financial statements presented by a parent or an investor.
- 7 On 26 July 2021 the IASB published the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* (ED) with the objective of developing a reduced-disclosure IFRS Standard (draft Standard) that would apply on a voluntary basis to subsidiaries without public accountability.
- 8 Similar to what already happens with IAS 27 *Separate Financial Statements*, the draft Standard (if published by the IASB) would be part of full IFRS Standards and subject to endorsement in the EU under the Regulation No. 1606/2002. It would mainly affect EU Member States that either permit or require the use of IFRS in the annual and consolidated accounts of non-publicly traded companies.
- 9 On 30 September 2021, EFRAG published its Draft Comment Letter (DCL), where it welcomes the IASB's efforts in developing reduced disclosure requirements for subsidiaries without public accountability and cautiously supports the proposed scope of the ED. It also provides detailed notes to constituents on the scope of the project.

Why is there a need for a Briefing on the scope of the IASB's project?

- 10 When the EFRAG Secretariat discussed the IASB's proposals in the ED with national standard setters and other European stakeholders in different outreach events, many questions were raised on who would be able to apply the IASB's proposals in Europe. Similarly, many questions were raised on the interaction between the IASB's proposals and the EU Accounting Legislation.
- 11 After considering these questions, the EFRAG Secretariat decided to prepare a draft Briefing which reflects the EFRAG Secretariat's understanding of how the proposals included in the IASB's exposure draft *Subsidiaries without Public Accountability: Disclosures* might be applied in Europe. More specifically:
 - (a) in Chapter 2 *Who would apply the proposals in Europe*, the EFRAG Secretariat explains its assessment on who could apply the IASB's proposals in Europe and provides a number of examples.
 - (b) in *Chapter 3: Interaction with EU Accounting Law*, the EFRAG Secretariat explains its assessment on the interaction between the IASB's proposals and the EU Accounting Legislation.

Questions for EFRAG TEG

- 12 Does EFRAG TEG have any comments/suggestions for improving the Chapter 1 of EFRAG Secretariat Briefing?
- 13 Does EFRAG TEG have any comments/suggestions for improving the Chapter 2 of EFRAG Secretariat Briefing?
- 14 Does EFRAG TEG have any comments/suggestions for improving the Chapter 3 of EFRAG Secretariat Briefing?
- 15 Does EFRAG TEG have any other comments/suggestions for improving the EFRAG Secretariat Briefing?

Agenda Papers

- 16 In addition to this cover note, agenda paper 03-02 – *EFRAG Secretariat Briefing – Who can apply it in Europe?*