This paper provides the technical advice from EFRAG TEG to the EFRAG Board, following EFRAG TEG's public discussion. The paper does not represent the official views of EFRAG or any individual member of the EFRAG Board. This paper is made available to enable the public to follow the EFRAG's due process. Tentative decisions are reported in 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
Cover note

Objective

1 The objective of the session is, as requested by EFRAG FR Board members during the written approval process started on 14 February 2022, to discuss some topics in detail in a meeting and approve EFRAG final comment letter on the Exposure Draft Subsidiaries without Public Accountability: Disclosures (ED).

Structure of the agenda paper

2 This agenda paper is structure as follows:

(a) Background: IASB's ED and EFRAG Draft Comment Letter (DCL).

(b) Proposed changes to EFRAG DCL;

(c) Dissenting view from one EFRAG FR TEG member;

(d) Appendix 1 - Background information on feedback received from constituents

Agenda Papers

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

(a) Agenda paper 01-02 a) – Final Comment Letter; and

(b) Agenda paper 01-02 b) – Final Comment Letter with track changes – background paper.

4 For background purposes, in Appendix 1 the EFRAG Secretariat provides a summary of the feedback received during EFRAG Secretariat's outreach on the IASB ED.

5 Finally, the background agenda papers for this session are:

(a) Agenda paper 01-03 – Comment letter analysis – background paper

(b) Agenda paper 01-04 – Analysis of the surveys with preparers – background paper

(c) Agenda paper 01-05 - EFRAG Secretariat Briefing on the compatibility of the Accounting Directive with the ED – background paper.

Background

IASB Exposure Draft Subsidiaries without Public Accountability: Disclosures

6 On 26 July 2021 the IASB published the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* (ED or draft Standard) with the objective of developing a reduced-disclosure IFRS Standard that would apply on a voluntary basis to

subsidiaries without public accountability. A short overview of the exposure draft is also available in the snapshot published by the IASB.

7 The ED would permit eligible subsidiaries to apply reduced disclosure requirements, while continuing to use the recognition, measurement and presentation requirements in full IFRS Standards. An entity in the scope of the project would be permitted to apply the ED in its consolidated, separate or individual financial statements.

8 The IASB Board Member, Ms Françoise Flores voted against the proposals in the ED as she opposed to restricting the IASB's proposals to subsidiaries without public accountability. Ms Flores believed that all entities without public accountability should be eligible to apply the ED, because it is by design relevant to all of them.

EFRAG Draft Comment Letter

9 On 30 September 2021, EFRAG published its Draft Comment Letter, where it welcomes the IASB's efforts in developing reduced disclosure requirements for subsidiaries without public accountability and cautiously supported the proposed scope of the ED.

10 However, EFRAG recognised that there is also support for the alternative view expressed by Ms Françoise Flores in the Basis for Conclusions of the ED. Therefore, EFRAG decided to ask constituents for their views on the scope of the ED, including a question to better understand which entities issue insurance contracts and are in the scope of the project.

11 In addition, EFRAG raised some concerns and provided suggestions to the IASB. For example, EFRAG:

(a) suggested that the key principles proposed by the IASB in paragraph BC33 of the Basis for Conclusions should encompass cost-benefit considerations;

(b) highlighted the risks of not considering the existing disclosure requirements in IFRS Standards in the light of BC157 in the Basis for Conclusions of the ED, when there are no recognition and measurement differences between IFRS for SMEs and IFRS Standards;

(c) suggested that the reasoning for the exceptions is improved;

(d) suggested considering the interaction between the disclosure requirements of the ED and the disclosure requirements of the ED *Disclosure Requirements in IFRS Standards – A Pilot Approach*;

(e) considered that the application of a full set of disclosure requirements for IFRS 17 *Insurance Contracts* can be burdensome and costly for eligible subsidiaries; and

(f) suggested a number of additional disclosures that it considers relevant for users of financial statements. Nonetheless, EFRAG acknowledges that the assessment of users' needs in terms of disclosures is difficult and subjective.

Proposed changes to EFRAG's draft Comment Letter

12 The EFRAG FR TEG proposed the following changes to EFRAG Draft Comment letter based on the feedback received (from outreach activities and comment letters):

Question 1 - Objective	***No change to initial position*** • To highlight that the benefit of the ED is mainly to reduce the costs for eligible subsidiaries that prepare general purpose financial statements under IFRS. • To include a reference to the scope in Question 1 as Question 1 and Question 2 are interrelated. • To highlight that in the European Union, the number of entities potentially impacted by this proposal and the consequent usefulness of the IASB's project, would differ largely between EU Member States and would depend on the use of the option included in the Regulation (EC) No 1606/2002. The impact is expected to be in principle limited in those countries that do not require nor permit the use of IFRS for the preparation of the annual financial statements, however in some cases the introduction of a set of IFRS Standards with reduced disclosure could potentially provide an incentive to EU Member States to modify their use of options in the Regulation (EC) No 1606/2002.
Question 2 - Scope	***Rearticulate EFRAG's initial position based on the feedback received*** *Scope* • To recognise the benefits and the support for the IASB's proposals to allow subsidiaries to use the same recognition and measurement requirements as their parent (as they already have to report to their parent) but with less onerous disclosure requirements. • To state that constituents expressed mixed views on the possibility to widen the scope. • Many European constituents asked for the IASB to consider widening the scope but they provided different suggestions, such as including, such as including (i) associates, joint ventures and joint operations; (ii) not listed insurance companies that are subsidiaries; (iii) not listed banks that are subsidiaries; (iv) ultimate parent entities for their separate financial statements; or even (v) all entities without public accountability). • To recognise that there is no consensus on whether and to what extent the scope should be widened. Therefore, any decision on the extension of the scope is likely to be challenging and controversial. • Considering this, at this stage, the IASB should proceed with its project and that a final IFRS Standard should be available to subsidiaries without public accountability on an optional basis. • To state that the IASB should, in due course and without delaying the finalization of the new standard for application by subsidiaries, assess the possibility of extending the

	proposed benefits to other type of entities, leveraging on the feedback already received in this consultation. *Terminology* • Express concerns that the IASB uses the concepts of 'public accountability' and 'holding assets in a fiduciary capacity' when defining the scope of this project. This is because, their meaning is not entirely clear (e.g. for insurers) and they could be in conflict with existing legal terms used in different EU Member States (e.g. for national standard setters)
Question 3 - Developing the disclosure requirements	***No significant change to initial position*** • To highlight that there is a general acceptance of the IASB's approach to use the *IFRS for SMEs* Standard as a starting point when developing the disclosure requirements. To add that the IASB should not introduce additional disclosure requirements to those required by IFRS Standards (ED paragraph 25 (a) is an additional requirement that does not exist in IFRS 1). • To state that using the disclosures in IFRS Standards as a starting point and then reducing them for the eligible subsidiaries in the draft Standard was a reasonable alternative approach which would also reflect the information needs of users.
Question 4 - Exception to the approach	***No change to initial position*** • To add a sentence stating that EFRAG welcomes and agrees with the exceptions provided by the IASB • To state that EFRAG does not expect any problem for the parents' preparation of consolidated financial statements if an eligible subsidiary reports according to paragraph 130 of the ED. However, suggest that further research is made to determine whether requiring such information at subsidiary level would encompass cost-benefit considerations. • When referring to disclosure objectives (paragraph 76 of EFRAG DCL), suggest that EFRAG mentions, as an example of the interaction with the *Disclosure Requirements in IFRS Standards – A Pilot Approach* that the draft standard could divert more from IFRS Standards than intended, if the IASB does not consider how to conceptually align the two approaches.
Question 5 - Transition to other IFRS Standards	***No change to initial position*** • To add that the IASB could consider, when developing a new or amended IFRS Standard, whether all transition disclosure requirements to this new or amended IFRS Standard would remain relevant for the entities within the scope of the proposed draft Standard and whether any relief regarding the transition disclosures would be appropriate.
Question 6 - Insurance contracts	***Change to initial position***

	• To amend the draft response to recommend the IASB to consider developing a reduced set of disclosure requirements for IFRS 17 and to engage in the outreach with the constituents to determine which disclosure requirements could be reduced before issuing a final IFRS Standard. • To add that arguments in paragraph BC64(d) about the needs of regulators with reference to IFRS 17 are not convincing as insurance undertakings already comply with the strict rules-based regulatory requirements set up in their related jurisdictions to respond to the regulators' information needs. • To note that if the IASB would reduce IFRS 17 disclosures after the standard has been implemented, it will not result in any cost savings and benefits for preparers as all the work for implementation has already been done. • To highlight that this question becomes particularly important if the scope of the ED is extended to include the non-listed insurance undertakings. • To add that requiring the full set of IFRS 17 disclosures could discourage subsidiaries from transitioning to IFRS if such disclosures are not required for the group reporting (i.e., if the group should not report on insurance activities due to materiality considerations). • To add that IASB approach to IFRS 17, which is not mentioned as an exception (see Question 4 for details) may create a precedence that entities have first apply the full set of disclosures every time a new or amended IFRS Standard is published. • To add as a response to Question (b) that EFRAG has been made aware about some insurance entities in Europe that could be in the scope of the draft standard (e.g. captive insurers; life insurers which do not hold assets for their customers (i.e., in fiduciary capacity), but hold them as their own investments at their risk; non-financial corporates that are not insurance companies that issue insurance contracts within the scope of IFRS 17 and the protection and indemnity insurance clubs).
Question 7 - Interaction with IFRS 1	***No change to initial position*** • To highlight the risk of structuring opportunities if the transition to IFRS Standards is done in two stages: First, the entity applies the provisions of this ED on the first-time adoption and a year after decides to apply the full IFRS
Question 8 - Proposed disclosure requirements	**No significant change to initial position- Refer to some additional disclosures. The requests of additional disclosures were based on the relevance of the disclosures for users of financial statements. These disclosures were identified either by stakeholders or EFRAG Secretariat during the consulting period. Most of these disclosures are mainly for intermediate parents or subsidiaries that have**

	significant investments. Thus, there is no significant impact to individual subsidiaries and it would not affect a significant part of the population in the scope of the ED. • Introduce in the IFRS 12 section of EFRAG DCL (in paragraph 107 of EFRAG DCL) an example of information about composition of a group - detailed information on subsidiaries that have non-controlling interests that are material to the reporting entity, including the name of the subsidiary ((as required by paragraph 12 of IFRS 12). Highlight also that such disclosures would only affect intermediate parents and not individual subsidiaries. • Request improved disclosures on significant investments, which would only affect subsidiaries that have associates, joint ventures and joint arrangements. For example: o to disclose the name of each material joint arrangement or associate (as required by paragraph 21 of IFRS 12); o to disclose the nature of the entity's relationship with the joint arrangement or associate (as required by paragraph 21 of IFRS 12); o disclosures on the proportion of ownership interest or participating share held by the entity and, if different, the proportion of voting rights held (as required by paragraph 21 of IFRS 12; and o for separate financial statements, a list of significant investments in subsidiaries, joint ventures and associates, including the name of those investees, the principal place of business of those investees. Also, its proportion of the ownership interest held in those investees (as in paragraph 16 of IAS 27). • Improve IFRS 12 section (paragraph 108 of EFRAG DCL) of the ED and mention any current commitments or intentions to provide financial or other support to an unconsolidated subsidiary. • Request for disclosures on maturity analysis for non-derivative financial liabilities that show the remaining contractual maturities (as required by paragraph 39 of IFRS 7) as these are useful for users of financial statements. • Request disclosures on the nature of expenses (e.g., for material items and items already required by other standards) when an entity classifies expenses by function, including depreciation and amortisation expense and employee benefits expense, as required by paragraph 104 of IAS 1. Such information tends to be fundamental for users (as discussed with users in the Primary Financial Statements project). • Request disclosures on the amounts of dividends proposed or declared before the financial statements were authorized for issue but not recognised as distribution to owners, and the related amount per shares (as in paragraph 137(a) of IAS

	1). Users are typically interested on disclosures about distributable dividends. Requests to further reduced disclosures • The EFRAG Secretariat notes that the disclosures mentioned by stakeholders either come for *IFRS for SMEs* Standard (thus, difficult to reduce even further) or address measurement and recognition differences (thus, deleting may have unintended consequences on addressing issues related to measurement and recognition differences). Considering this, the EFRAG Secretariat is not proposing a reduction of disclosures.
Question 9 - Structure of the draft Standard	***Rearticulate EFRAG's initial position based on the feedback received*** • to improve paragraph 133 of EFRAG DCL, where EFRAG generally supports the IASB's approach, by explaining 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 exposure draft (e.g., some disclosure requirements are embedded in paragraphs that include recognition, measurement or presentation requirements. • However, EFRAG acknowledges that there is support for incorporating all disclosure requirements (footnotes and Appendix A) in the main body of the exposure draft. • The IASB could further consider the feasibility of such an approach.

Dissenting views

13 All TEG members present, except for one, approved and recommended the attached letter to the EFRAG Board.

14 Massimo Tosoni expressed a dissenting view for the following reasons:

(a) the subsidiaries in the insurance sector should be able to apply this standard, to ensure a level playing field, while the ED states that most insurance companies hold assets in a fiduciary capacity and, as such, are not in scope, such as when they are not captive insurers;

(b) he disagrees that (re)insurers are always holding assets they invest in in a fiduciary capacity. While insurers offer some specific products like unit-linked insurance contracts, it does not mean that generally insurers' main activity is to act in a fiduciary capacity for policyholders;

(c) it is important that possibilities to apply the new IFRS Standard in a proportionate way to all non-listed subsidiaries – including the insurance sector - are at least investigated by the IASB when finalising the new standard.

15 This position is similar to the position of the Insurance Industry (see response from GDV Germany (CL08) and Insurance Europe (CL09) "While Insurance Europe agrees that listed companies (including insurance undertakings) have public accountability, we disagree that insurers are always holding assets they invest in in

a fiduciary capacity and, as such, prevent the insurers to be included in the scope of application of the Standard."

16 Other TEG members acknowledged Massimo Tosoni concerns, but decided to:

(a) recommend the IASB to address the enlargement of the scope in all the directions (from subsidiaries that are insurance companies to all entities without public accountability) in due course, without delaying the finalization of the new standard for application by subsidiaries;

(b) recommend the IASB to clarify the concept of fiduciary capacity in light of the fact that insurers in Europe do not consider themselves in general as acting in fiduciary capacity, contrary to the conclusions of the IASB; and

(c) The main reason for supporting the current scope is timing (not to delay the benefits for subsidiaries). They decided not to recommend an urgent project for enlarging the scope, as this issue was not mentioned in the recent Agenda Consultation.

Questions for EFRAG FR Board

17 Does EFRAG FR Board approve the EFRAG final comment letter on the ED?

Appendix 1: Background information on feedback received from constituents

Feedback from the comment letters received

18 EFRAG received 16 comment letters, most of them from national standard setters. Users did not provide a comment letter to EFRAG.

19 Almost all respondents welcomed the IASB's ED and its objective. In general, these respondents acknowledged that the IASB's ED would ease financial reporting to eligible subsidiaries while meeting the reasonable needs of the users of their financial statements.

20 However, respondents expressed mixed views on the proposals relating to scope, in particular on whether and to what extent the scope should be widened. For example, respondents that suggested that the IASB should expand the scope, called for the IASB to include associates, joint ventures, joint operations, not listed insurance companies that are subsidiaries, not listed banks that are subsidiaries, separate financial statements of ultimate parent entities, subsidiaries with public accountability. Four respondents called to expand the scope to all entities without public accountability (alternative view by Ms Françoise Flores).

21 Some respondents also expressed concerns about the terminology used by the IASB when defining its scope ("public accountability, "fiduciary capacity", etc), which is neither used in IFRS Standards nor in EU accounting law, which may raise application challenges.

22 Respondents also supported the IASB's approach for developing the proposed disclosure requirements and the introduction of exceptions. However, it is worth noting, that respondents' comments focused mainly on the IASB's exception related to disclosures objectives (i.e., not including disclosure objectives in the draft Standard) and the interaction of this exception with the IASB ED *Disclosure Requirements in IFRS Standards – A Pilot Approach.*

23 In regard to disclosure requirements about insurance contracts, those that replied to this question provided mixed views on whether the IASB should reduce the disclosure requirements of IFRS 17 *Insurance Contracts*. The respondents who disagreed with the IASB proposals, particularly representatives of the insurance industry, considered that a potential set of reasonably reduced disclosure requirements for IFRS 17 should be explored and developed.

24 When referring to the proposed disclosures in the ED, respondents that answered to the question provided mixed views on the right level of disclosure requirements for the entities that apply the draft Standard. There was support for the IASB proposals, there were requests for additional disclosures and there were requests for further reduction in the disclosures. Nonetheless, respondents provided a number of suggestions to the IASB, including a request for the IASB to include a general description of the information that will be lost when applying the ED compared to full IFRS Standards.

25 Finally, on the structure of the ED, respondents provided mixed views. There was support for proposed structure, however many respondents that replied to the question did not agree with the proposed structure of the ED as it would be challenging to navigate through the standard with three separate sections of disclosure requirements (main body, footnotes and Appendix A). These respondents expected that incorporating all disclosure requirements in the main body of the ED could simplify the structure and aid applicability for preparers, users and auditors.

Feedback received from EFRAG Working Groups

EFRAG User Panel

26 EFRAG User Panel members noted that currently the financial statements of many subsidiaries were prepared under local GAAP and that investors struggled to use them (except for insurance companies where investors tend to know local GAAP). The IASB's proposal would have the benefit to encourage subsidiaries that are SMEs to apply IFRS Standards, which would significantly increase the quality of their financial statements and ease their use.

27 EFRAG User Panel members also considered that insurance companies could be in the scope of the project as long as they would apply the disclosures in IFRS 17 to their insurance contracts (i.e., would apply reduced disclosure requirements on the other topics such as IAS 36 *Property, Plant and Equipment,* IAS 40 *Investment Properties*, etc).

28 However, one Panel member expressed concerns over loss of information if the scope was broadened to include all entities without public accountability, particularly when considering sizeable European entities would be able to move away from full disclosures under IFRS Standards or local GAAP.

29 Finally, EFRAG User Panel considered that information about the group and intragroup transactions was fundamental, including at subsidiary level. In this context, they also questioned whether the ultimate parent should list the subsidiaries that have applied the reduced disclosures IFRS Standard.

EFRAG Insurance Accounting Working Group

30 EFRAG IAWG members expressed concerns that the IASB used the concepts 'public accountability' and 'holding assets in a fiduciary capacity' when defining the scope of this project. This is because, their meaning was not entirely clear (these concepts were not currently being used in IFRS Standards) and they could be in conflict with existing legal terms used in different EU Member States (e.g., from a legal perspective in Germany insurance companies did not hold assets in a fiduciary capacity as premiums would become ownership of the insurance company once received from the policy holders).

31 EFRAG IAWG members added that the use of the concepts 'public accountability' and 'holding assets in a fiduciary capacity' seemed to be designed to introduce exceptions for specific industries such as the insurance sector, a sector which was already highly regulated to ensure protection of policy holders.

32 EFRAG IAWG members considered that reduced disclosures could also be beneficial for subsidiaries of insurance companies that issue insurance contracts and could increase the use of IFRS Standards in Europe (and consequently improve comparability and the relevance of financial statements).

33 Finally, EFRAG IAWG members disagreed with the IASB's approach and the arguments provided by the IASB on not reducing disclosures related to IFRS 17. It was highlighted that in Europe there were many subsidiaries that insure only the risks of its parent or its fellow subsidiaries (i.e., captive insurers) and that they would welcome reduced disclosures on IFRS 17 for such entities.

Financial Instruments Working Group

34 FIWG members acknowledged that the concepts 'Public Accountability' (used by the IASB) and the concept Public Interest Entity (used in the EU Accounting Directive) were different and that this could raise some challenges in Europe. They suggested that this difference should be explained.

35 Some members considered that the explanations provided by the IASB on why it had excluded entities that hold assets in a "fiduciary capacity" were insufficient. These EFRAG FIWG members asked for the IASB to widen the scope to include entities holding assets in a fiduciary capacity (e.g., include small savings banks). It was noted that the IASB's proposed scope would only benefit a limited number of entities.

36 Finally, members noted that if financial institutions were included in the scope, then more disclosures on IFRS 7 would be needed. Members considered that an alternative approach would be extending the scope to include entities "holding assets in a fiduciary capacity" but keeping the full disclosure requirements in IFRS 7 and IFRS 17 for these entities (considering that the parent already provide extensive information about the group).

Feedback received during EFRAG Outreach Activities

Webinars and outreach events

Webinar with Danish Stakeholders

37 On 5 October 2021, EFRAG organised a joint webinar with the Confederation of Danish Industry, FSR – Danish Auditors with the participation of the IASB, where participants exchanged views on the costs and benefits of the IASB's project *Subsidiaries without Public Accountability: Disclosures*, as well as its scope and the approach used in developing the disclosure requirements.

38 In general, panel members welcomed the project and its objective. They highlighted that this project was long-awaited by the preparers, it was likely to reduce the costs for many subsidiaries, promote the use of IFRS Standards and promote the use of consistent accounting policies within a group (i.e., the use of IFRS Standards within a group).

39 However, panel members considered that the proposed disclosure requirements appeared to be extensive for subsidiaries without public accountability and that the proposed scope was too narrow. In particular, they considered that the IASB should discuss the possibility of widening the scope to include at least associates and joint ventures. Nonetheless, it was noted that the IASB's proposals could also be beneficial for all entities without public accountability.

40 One panel member questioned whether the *IFRS for SMEs* Standard was the right starting point as it had been developed for small and individual entities. It was suggested that the IASB should rather use full IFRS Standards as a starting point and then reduce those disclosure requirements for subsidiaries without public accountability. This approach would ensure the usefulness of the disclosed information to users of financial statements.

Webinar with German Stakeholders

41 On 12 January 2022, EFRAG and the Accounting Standards Committee of Germany organised a joint webinar. The participants welcomed the IASB's objective of developing an IFRS with reduced disclosure requirements for subsidiaries. The IASB's proposals seemed to be particularly relevant for globally operating entities with a large number of foreign subsidiaries.

42 When discussing the scope, participants regretted that the IASB proposals would not be applicable to subsidiaries in the insurance industry. They also acknowledged that there were pros and cons in extending the scope to all entities without public accountability.

43 From a cost-benefit point of view, participants considered the IASB's proposals would significantly reduce the number of the disclosure, the costs of collecting relevant information and the auditing costs.

Surveys with National Standard Setters

44 EFRAG has also reached out to European National Standard Setters to better understand the costs and benefits of the IASB proposals and whether there are any incompatibilities with the European Accounting Legislation. The latter was discussed twice with the EFRAG CFSS members in September and November 2021.

45 National Standard Setters noted that the usefulness of and the benefits from the IASB's project would differ between EU Member States and would depend, amongst others, on the use of the option included in the Regulation (EC) No 1606/2002.

46 In addition, no significant incompatibilities between the IASB's proposals and the Regulation (EC) No 1606/2002 or Directive 2013/34/EU were identified by the national standard setters that participated in the survey.

47 However, one EU Member State that requires the use of IFRS Standards in its jurisdiction noted that eligible subsidiaries will be filing their financial statements with reduced disclosures under IFRS Standards whereas companies that are not subsidiaries will be required to follow the full scope IFRS Standards. In addition, it was also noted that it was not clear whether a subsidiary would be allowed to use the proposed standard in case that the ultimate or intermediate parent uses the exemptions from consolidation under Article 23 of the Accounting Directive 2013/34/EU.

Survey with preparers

48 On 8 November 2021, EFRAG launched two surveys for preparers of financial statements (parents and subsidiaries) on the costs and benefits and some of the content of the IASB proposals.

49 EFRAG received 9 completed surveys from parents and 5 completed surveys from subsidiaries.

50 The key conclusions can be found below:

(a) most entities expect significant ongoing cost-savings at both subsidiary and parent level, particularly in terms of reduction of costs with employees, reduction in auditing costs and elimination of the need to maintain additional accounting records;

(b) only one parent entity and one subsidiary considered that no significant cost-savings are expected (e.g., still having to produce the detailed IFRS disclosures for the group reporting package);

(c) many subsidiaries and parent entities highlighted the benefit of preparing financial statements under IFRS, as users of financial statements prefer the use of IFRS Standards;

(d) for subsidiaries that are currently applying full IFRS Standards, the initial implementation costs were assessed to be insignificant;

(e) for subsidiaries that would apply the reduced disclosure IFRS Standard and adopt IFRS Standards for the first time (e.g., were previously applying local GAAP), the majority of the respondents identified one or more areas where significant implementation costs were expected (the questionnaire addressed implementation costs in general, without splitting costs for recognition and measurement and disclosures);

(f) most participants of the survey considered that the current scope of the project should be broader but had mixed views on which entities should then be included. Nonetheless, many parent entities agreed that the scope should at least include associates, joint ventures and joint operations without public accountability; and

(g) many parent entities and subsidiaries considered the proposed Standard to be very helpful. However, there was mixed feedback about a potential application of the proposed Standard. Several respondents highlighted in their comments that applicability depends on whether IFRS Standards were allowed for annual accounts in local jurisdiction, reflecting the different use of the options in Regulation (EC) No 1606/2002.

EFRAG Secretariat's research activities on the applicability of the IASB's ED in the European Union

EFRAG Secretariat Briefing on the scope of the IASB's project from an EU perspective

51 When EFRAG discussed this project with national standard setters and other stakeholders in different outreach events, many questions were raised on who would be able to apply the IASB's proposals in Europe. There were also many questions on the interaction between the IASB's proposals and the EU Accounting Legislation.

52 To address those questions, on 9 December 2021 the EFRAG Secretariat issued a briefing focused on the scope of the IASB's project from an EU perspective. In particular, this Briefing highlighted that:

(a) The draft Standard would be part of full IFRS Standards and in principle subject to endorsement in the EU under the EU Regulation 1606/2002;

(b) If endorsed in the EU, the direct effects on reporting entities of an IFRS Standard based on this ED would depend on how the Article 5 of the EU Regulation 1606/2002 has been implemented by the EU Member State to which the entity belongs and whether the subsidiary exemption in Article 37 of the 2013 Accounting Directive has been used; and

(c) If not endorsed, companies located in EU Member States may still be affected by the Draft Standard if they have subsidiaries located outside of the EU in countries where IFRS Standards are applied.

EFRAG Secretariat study on compatibility of the Accounting Directive 2013/34/EU with the IASB's ED

53 As already mentioned above, in July 2021 the IASB issued an ED. If, following this consultation:

(a) the IASB decides to issue a reduced-disclosure IFRS Standard (draft Standard) for eligible subsidiaries;

(b) the European Union ("EU") decides to endorse such an IFRS Standard; and

(c) EU Member States permit or require the use of IFRS Standards in accordance with the Article 5 of the EU Regulation 1606/2002,

then several subsidiaries may decide to move away from full disclosures in IFRS Standards or move from national GAAP to IFRS Standards in jurisdictions where EU Member States allow or require IFRS Standard for non-listed entities [1].

54 Therefore, the IASB's draft Standard could be seen, to a certain extent, as "competing" with national GAAPS and the Accounting Directive 2013/34/EU, even if in a limited way (when considering the narrow scope proposed by the IASB and the number of EU Member States that allow or require the use of EU-endorsed IFRS Standards for non-listed entities).

55 In the context of the IASB consultation on the ED, the EFRAG Secretariat undertook a high-level analysis of:

(a) whether there are different disclosure requirements in the Accounting Directive 2013/34/EU and the ED as a result of different measurement and recognition requirements (e.g., disclosures on amortisation of goodwill); and

(b) whether there are any disclosures in the Accounting Directive 2013/34/EU that are not required in the IASB's ED. In particular, whether the reduced disclosure requirements of the ED, when compared to full IFRS, implies losing disclosures that are required by the Accounting Directive 2013/34/EU.

56 Such an assessment is expected to help European stakeholders and the European Commission to assess, among other things, whether the Draft Standard ensures an equivalent level of protection of shareholders (including non-controlling shareholders), creditors, members and other third parties as the Accounting Directive 2013/34/EU.

57 The key conclusions from this preliminary compatibility study were:

(a) *Step 1: Different disclosures requirements as a result of different recognition and measurement requirements*

(i) no disclosures in the ED on the period over which intangibles with indefinite useful lives are written off, including goodwill. The same applies for full IFRS Standards; and

(ii) for many accounting areas (for example on leases, deferred tax and pension obligations) the Accounting Directive is silent. In those cases, there is no incompatibility between the ED and the Accounting Directive but there may be still different disclosure requirements between the ED and the national GAAPs as EU member States have discretion in setting their disclosures.

(b) *Step 2: Disclosures in the Accounting Directive that are not required in the ED or that are different in the ED*

(i) some disclosures in the Accounting Directive are not required in the IASB's ED. However, in most of the cases, those disclosures are not required neither by the ED nor full IFRS Standards.

(ii) there are a number of disclosures that are required by the IFRS Standards and the Accounting Directive 2013/34/EU but not required in the ED. For example, disclosures on the composition of the group, which the ED requires limited disclosures);

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[1] In accordance with the Article 5 of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards.

(iii) when IFRS standards or the ED do not include specific disclosures that are required by the Accounting Directive, such disclosures should be required by the national accounting laws.

(c) *Step 3: Updated overview of the use of options provided in the IAS Regulation (1606/2002) in the EU*

(i) EFRAG received responses from 15 National Standard Setters. In almost all cases, there is no change.