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
Summary and analysis of the comment letters received

Objective

1 The objective of this agenda paper is to provide EFRAG FR Board members a summary and analysis of the comment letters received.

Content of the paper

2 This comment letter analysis contains:

(a) Summary of respondents;

(b) Summary of respondents' views;

(c) Main positions in EFRAG's proposed final comment letter for each question;

(d) Detailed analysis of responses to questions in EFRAG's draft comment letter, EFRAG Secretariat's recommendations and questions to EFRAG TEG; and

(e) Appendix 1 – list of respondents.

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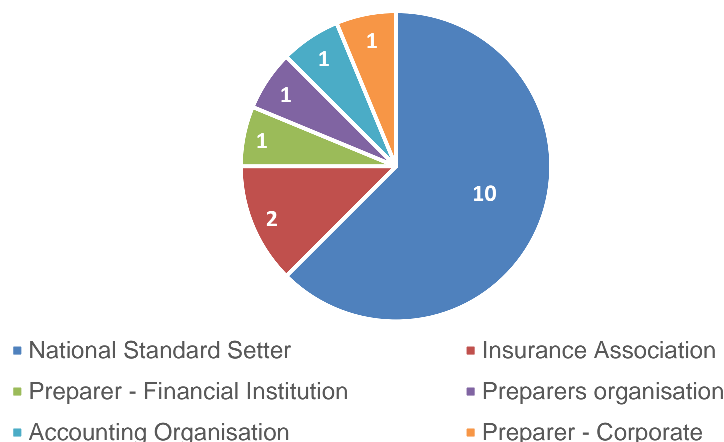
Summary of respondents

3 As of 2 February, the EFRAG Secretariat received 16 comment letters, most of them from national standard setters.



4 This feedback statement uses the following terms to describe the extent to which particular feedback was shared by respondents (both when referring to total respondents or a subset of respondents).

The % in this document refer to the total number of respondents to the relevant question, where otherwise not differently clarified.

Term	Extent of response among respondents
Almost all	90% - 100%
Most	80% - 90%
Majority	50% - 80%
Many, significant	20% - 50%
Some, others	10% - 20%
A few, minor	0% - 10%

Summary of respondents' views

Objective

5 Almost all respondents welcomed the IASB's Exposure Draft *Subsidiaries without Public Accountability: Disclosures* (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".

6 By contrast, one respondent did not see any advantages on this ED. He argued that European accounting legislation already simplified standards for entities concerning their size and that the benefit of the IASB's proposals would not compensate the

cost of loss of information for users and the lack of consistency with entities using local GAAPs.

7 When referring to the applicability of the IASB's proposals in Europe, many 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. In addition, it was noted that large multinational groups may still benefit from an IFRS Standard with reduced disclosure requirements for subsidiaries, even when such an IFRS Standard would primarily be applicable to the financial statements of their foreign subsidiaries.

Scope

8 Respondents expressed mixed views on the proposals relating to scope, in particular on whether and to what extent the scope should be widened.

9 The EFRAG Secretariat observed that many respondents supported the IASB's proposed scope and allow only eligible 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.

10 However, half of the respondents called for the IASB to expand the scope. Still, these respondents provided mixed views on to what extent the scope should be widened. For example, respondents 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.

11 One respondent suggested that the IASB should better assess the impact and the advantages and disadvantages of a broader scope.

12 Finally, some respondents 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.

Developing the proposed disclosure requirements

13 All of the respondents who replied to this question (8 respondents) agreed with the IASB's approach for developing the proposed disclosure requirements. (i.e., start with the disclosure requirements in the *IFRS for SMEs* Standard and tailor the disclosure requirements in IFRS Standards when there is a recognition and measurement difference between IFRS Standards and the IFRS for SMEs Standard).

14 Nonetheless, one respondent agreed with the proposed approach but indicated that an alternative approach could have also been reasonable. Developing the reduced disclosure requirements based on full IFRS and tailoring them to the information needs of primary users of financial statements of non-publicly accountable subsidiaries would have had the advantage that the reduced disclosure requirements would be derived directly from the information needs of the users of financial statements.

15 Finally, some respondents expressed a few concerns (e.g., not introducing additional disclosure requirements to those already required by *IFRS Standards*)

Exceptions to the approach

16 Most respondents who replied to this question (8 respondents) generally agreed with the exceptions to the approach as outlined in paragraphs BC40–BC52 of the Basis for Conclusions.

17 However, many of the respondents who replied to this question disagreed with specific exceptions. It is worth noting, these respondents' comments focused mainly on the IASB's exception related to disclosures objectives (i.e., not include disclosure objectives in the draft Standard) and the interaction of this exception with the IASB ED *Disclosure Requirements in IFRS Standards – A Pilot Approach)*

18 In addition, some respondents highlighted the need for more educational material regarding the IASB's rationale when developing the exceptions to its approach.

19 Finally, in response to EFRAG's question to constituents:

(a) many respondents did not expect any problem for the parents' preparation of consolidated financial statements if an eligible subsidiary reports according to paragraph 130 of the ED;

(b) some respondents observed that a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities is generally disclosed in consolidated financial statements;

(c) a few respondents suggested the IASB to consider whether this information should be required by the exposure draft as they expect only limited benefits from such disclosure.

Transition

20 All respondents who responded to this question (9 respondents) agreed with the IASB's proposals.

21 Many respondents who responded to this question suggested 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.

IFRS 17 Insurance Contracts

22 The respondents that replied to this question (11 respondents) provided mixed views on whether the IASB should reduce the disclosure requirements of IFRS 17 Insurance Contracts. These respondents provided the following views:

(a) **Support for the IASB's proposal to not reduce the disclosure requirements of IFRS 17**: Many respondents agreed with the IASB proposals, but suggested that the IASB engages in the outreach activities, post-implementation review or any other form of a dialogue with preparers to identify opportunities for reductions of IFRS 17 disclosures;

(b) **Against the IASB's proposal to not reduce the disclosure requirements of IFRS 17:** Many respondents representing insurance industry and national standard setters (of those who responded to this question) disagreed with the IASB proposals not to provide the reduced disclosure requirements for IFRS 17. In their view:

(i) it would put insurance entities at disadvantage and would result in undue costs and efforts and bring no or only little benefit to the users of financial statements.

(ii) the IASB arguments in paragraph BC64 of the Basis for Conclusions were not compelling as they could be applied to any newly issued IFRS Standard (e.g., IFRS 15 or IFRS 16) and the reference to the regulators' needs as not convincing as insurance undertakings already comply with the strict rules-based regulatory requirements set up in their related jurisdictions to meet these needs.

(iii) the IASB should consider developing a reduced set of disclosure requirements for IFRS 17.

(c) **No opinion**: Some respondents stated that they had no opinion on this issue;

(d) Finally, one respondent noted 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 for example for materiality reasons.

23 Respondents provided limited information about the entities that issue insurance contracts within the scope of IFRS 17 and are eligible to apply the draft Standard. The majority of respondents were either not aware about such entities or mentioned that there were a few or some. Some respondents provided examples of 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.

Interaction with IFRS 1 First-time Adoption of International Financial Reporting Standards

24 All the respondents who answered this question (16 respondents) agreed with the IASB proposals.

25 One respondent considered that the ED was already sufficiently clear that the use of reduced-disclosure IFRS is not considered a change in an accounting policy in accordance with IAS 8 as it is related to the use of an optional IFRS Standard and suggested not to ask for the clarification.

26 Another respondent on the contrary suggested to clarify in the body of the final standard that the use the of reduced-disclosure IFRS is not considered a change in an accounting policy in accordance with IAS 8.

The proposed disclosure requirements

27 Respondents that answered to the question provided mixed views on the right level of disclosure requirements for the entities that apply the draft Standard:

(a) a few respondents agreed with the proposed disclosure requirements;

(b) some respondents requested for additional disclosures; and

(c) a few respondents requested a further reduction in the disclosures.

28 In addition, respondents provided a number of suggestions to the IASB. For example, the IASB should develop a table of concordance which explains any differences in the disclosure requirements between the IFRS for SMEs Standard and the draft Standard and its reasoning for that decision and the IASB should clearly identify the users of the subsidiaries' financial statements so that information to be disclosed is directly driven by what they deem useful.

Structure of the draft Standard

29 Respondents that replied to this question have provided mixed views (9 respondents) as the majority of respondents agreed with the IASB's proposed structure of the draft standard (referring to remaining disclosure requirements in other IFRS Standards by footnotes and listing the disclosure requirements that are replaced in appendix A).

30 However, many also preferred incorporating all disclosure requirements in the main body of the exposure draft.

31 Finally, one respondent suggested the IASB to generally introduce disclosure requirements by way of an IFRS Taxonomy for disclosure requirements.

Detailed analysis of responses to EFRAG's draft comment letter

General

32 Almost all respondents welcomed the IASB's ED and its objective. These respondents acknowledged that the IASB's ED would have the benefit of:

(a) "reducing the administrative burden for a group of preparers for which the public interest in the financial statements is more limited";

(b) "reducing the administrative burden for eligible subsidiaries while maintaining a level of disclosure that compares to other entities without public accountability";

(c) easing financial reporting to eligible subsidiaries without a significant impact on the usefulness of financial statements to the users;

(d) "reducing the costs of preparation of subsidiaries' financial statements";

(e) moving "towards the right direction for better, more efficient financial reporting, in particular for those entities which could have applied a simpler accounting regime (e.g., IFRS for SMEs) but are not allowed under local legislation";

(f) having eligible subsidiaries that would "benefit from applying the draft Standard as the internal quality assurance and audit effort would be reduced, since fewer disclosures would be subject to audit. The auditor could also leverage on the work performed for the statutory audit and group reporting (i.e., the subsidiary's reporting to the parent entity)";

(g) having large multinational groups that could "benefit from the draft Standard, since considerable synergy potentials (e.g., through shared service centres) could be exploited and the costs of preparing separate financial statements across all subsidiaries could be significantly reduced";

(h) supporting "better comparability across countries and lessen the effort to transition to IFRS Standards when required (e.g., if an entity undertakes an IPO)"; and

(i) being "useful to boost the adoption of IFRS in subsidiaries' financial statements".

33 Nonetheless, some respondents that supported the IASB's project provided some general suggestions and alternatives to the IASB:

(a) the ED does not provide a general description of the information that will be lost when applying the ED, when compared to full IFRS. Such an information would be necessary to assess the significance of the loss of information. Thus, the IASB should prepare a more in-depth impact assessment including a cost-benefit analysis;

(b) the IASB should assess the information needs of users of financial statements of subsidiaries without public accountability, including the information needs of minority shareholders for which the financial statements are the main (or only) source of information;

(c) the IASB should assess the interaction of the proposed disclosure requirements in the ED with the existing legal requirements of different jurisdictions and proactively ask the opinion of the bodies who are responsible for endorsing IFRS in the different jurisdictions, as usefulness of this standard will largely depend on these bodies' needs;

(d) the IASB should further reduce the disclosure requirements as additional exemptions for the disclosure requirements would reduce complexity and costs without jeopardizing the quality of the information; and

(e) the IASB should consider whether the proposed disclosure requirements are aligned with the general objective of the IASB to publish a single set of high-quality global standards.

34 By contrast, one respondent did not see any advantages on this ED. This respondent noted that European accounting legislation already simplified standards for entities concerning their size and that the benefit would not compensate the cost of loss of information for users and the lack of consistency with entities using local GAAPs.

Question 1—Objective

Question 1

Paragraph 1 of the draft Standard proposes that the objective of the draft Standard *Subsidiaries without Public Accountability: Disclosures* is to permit eligible subsidiaries to apply the disclosure requirements in the draft Standard and the recognition, measurement and presentation requirements in IFRS Standards.

Do you agree with the objective of the draft Standard? Why or why not? If not, what objective would you suggest and why?

EFRAG's tentative position

EFRAG agrees with the proposed objective of specifying reduced disclosure requirements for the financial statements of subsidiaries that are in the scope of the project.

EFRAG considers that the IASB's proposals would have the benefit of allowing entities that are in the scope of the project to apply IFRS Standards (i.e., use the recognition and measurement requirements in IFRS Standards) with reduced disclosure requirements.

Summary of constituents' comments

35 Almost all respondents welcomed the objective of the ED of permitting eligible subsidiaries to apply the disclosure requirements in the draft Standard and the recognition, measurement and presentation requirements in IFRS Standards. Some of these respondents highlighted that the IASB proposals:

36 Nonetheless, one respondent considered that if disclosure requirements in full IFRS `would be more principle-based, this may imply that reduced disclosures by subsidiaries without public accountability could be achieved by a principle-based application of the disclosure requirements in full IFRS.

<u>EFRAG's question to constituents: Do you expect any incremental benefits for the European Companies in your jurisdiction?</u>

37 Many respondents referred to the applicability and benefits of the IASB's proposals in Europe.

(a) Four respondents highlighted that in their jurisdiction the use of IFRS standards is limited or even not permitted for non-listed entities (including annual, individual, separate, consolidated financial statements). Nonetheless, some of these respondents:

(i) acknowledged that groups may elect to apply the ED (if approved) to the individual financial statements of their subsidiaries located in jurisdictions allowing or requiring the use of IFRS Standards in those financial statements. Thus, large multinational groups may benefit from an IFRS Standard with reduced disclosure requirements for

subsidiaries, even though such an IFRS Standard would primarily be applicable to the financial statements of their foreign subsidiaries, these groups expect incremental benefits and cost savings from such a Standard;

(ii) highlighted that the issuance of the IFRS Standard with reduced disclosure requirements had triggered a discussion to consider whether it should recommend to the legislator to permit IFRS Standards also for annual accounts.

(b) One respondent explained that its jurisdiction had decided the use of IFRS in the annual accounts and/or consolidated financial statements for all entities (public traded and non-publicly traded). Therefore, the number of subsidiaries that are expected to benefit from this standard is expected to be high.

(c) One respondent noted that many entities apply IFRS in preparing their separate financial statements, so the population of subsidiaries that may be affected from this project is potentially significant.

(d) One respondent acknowledged that there would be benefits in its jurisdiction, but the benefits may be minor compared to other European countries.

(e) One respondent highlighted that currently only few subsidiaries opt (when this option is available) to publish full IFRS statements as a result of the significant disclosure requirements of full IFRSs.

(f) One respondent expected a decrease on the audit fees. Notwithstanding, this respondent was of the opinion that the benefit would not compensate the cost of loss of information for users and the lack of consistency with firms using local GAAPs.

EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position

38 Considering the feedback received, the EFRAG Secretariat recommends that EFRAG's initial position is not changed (i.e., EFRAG agrees with the proposed objective).

39 However, the EFRAG Secretariat suggests a new paragraph to EFRAG's response to Question 1 where EFRAG acknowledges 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.

Question 2—Scope

Question 2

Paragraphs 6–8 of the draft Standard set out the proposed scope. Paragraphs BC12–BC22 of the Basis for Conclusions explain the IASB's reasons for that proposal.

Do you agree with the proposed scope? Why or why not? If not, what approach would you suggest and why?

EFRAG's tentative position

At this stage, EFRAG cautiously agrees with the IASB's proposed scope. However, EFRAG recognises that there is also support for the alternative view expressed by Ms Françoise Flores in the Basis for Conclusion of the ED. Therefore, EFRAG has decided to ask constituents for their views on the scope of the ED.

EFRAG highlights that the IASB's proposals in this project are likely to put pressure on the definition of 'available for public use'.

Finally, EFRAG is concerned about the IASB's proposals that the entity must be a subsidiary without public accountability at the end of the reporting period in order to be included in the scope of the project.

Summary of constituents' comments

40 Respondents provided mixed views on whether and to what extent the scope should be widened.

Support for the IASB's proposed scope

41 Many respondents agreed with the scope as proposed by the IASB (i.e. permit an entity to apply the ED to its consolidated, separate or individual financial statements if and only if, at the end of its reporting period, it is a subsidiary, it does not have public accountability and it has an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Standards). These respondents argued that:

(a) this new approach should be tested first in subsidiaries without public accountability and later (e.g., after the implementation and its application) assess whether the scope should be expanded;

(b) the scope is consistent with the feedback from stakeholders about the need for reduced disclosure requirements for subsidiaries whose parent prepares consolidated financial statements applying IFRS Standards;

(c) the scope ensures that full disclosures under IFRS Standards are, anyway, in the consolidated financial statement of the parent;

(d) the scope extension would be a fundamental change that would require the IASB to revise its approach to the project; and

(e) expanding the scope to all SMEs would undermine the legitimacy of the IFRS for SMEs Standard.

Support for extending the scope

42 Half of the respondents disagreed with the scope as proposed by the IASB. All these respondents considered that the scope should be widened.

43 However, these respondents provided mixed views on how the scope should be extended. These mixed views are described below.

<u>All entities without public accountability</u>

44 Four respondents supported the alternative view of Ms Francoise Flores that all entities without Public Accountability should be permitted to apply the IASB's proposals. One respondent detailed that this extended scope would include joint ventures, associates, registered foreign branches of companies, as well as standalone entities and ultimate parents that are not publicly accountable.

45 These respondents argued that:

(a) there is no conceptual or practical difference between allowing a subsidiary to use the reduced disclosures and allowing other entities;

(b) the obligation to prepare 'additional accounting records' as described in paragraph BC2 of the ED applies just as much to an associate, a joint venture and a branch, as it does to a subsidiary;

(c) the reduced disclosure requirements retained in this ED are mainly drawn from the *IFRS for SMEs*, which can be used by standalone SMEs and SME parent entities as well;

(d) the IASB developed the proposed disclosure requirements following an approach relevant for all entities without public accountability, and hence without taking into account any characteristics of a subsidiary.

46 Nonetheless, one respondent considered that if the IASB would widen the scope, then it would be necessary (considering that the current proposals are frame with the current scope in mind) to assess the users' needs for entities without public accountability (most probably management and credit providers) and assess whether the disclosures would provide sufficient and relevant information to users.

<u>All entities without public accountability and beyond</u>

47 One respondent considered that the scope should be extended to include:

(a) all entities without public accountability;

(b) separate financial statements of parent entities that are not subsidiaries, if their consolidated financial statements are prepared under IFRS Standards. At present, these financial statements in its jurisdiction are prepared in accordance with local GAAP. Except for a few specific local reporting requirements, separate financial statements prepared in accordance with the draft Standard would provide even more information than that required according to local GAAP. Thus, there will be no reduction of information for users of those financial statements; and

(c) Small/medium sized banks and insurance entities, as excluding such entities from the scope of the draft Standard contrasts with the implicit interest of European regulators to promote the application of IFRS by regulated entities.

<u>Not listed insurance subsidiaries</u>

48 Two respondents, representers of the insurance industry, considered that not listed insurance subsidiaries should be eligible to benefit from the reduced set of disclosure requirements foreseen for the other regular IFRS Standards to ensure level playing field with other industries.

49 In addition, one of these respondents disagreed with the IASB that insurers are always holding assets they invest in a fiduciary capacity and, as such, prevent the insurers to be included in the scope of application of the Standard.

<u>Financial institutions</u>

50 One respondent suggested extending the scope of the new draft standard in a way that it also includes entities that hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This would enhance the applicability also to financial institutions. This respondent argued that:

(a) Extending the scope of the draft standard to financial institutions would boost the adoption of IFRS standards in annual accounts;

(b) full IFRS disclosures are of greater use in the consolidated group financial statements rather than in the accounts of relatively small entities; and

(c) there are jurisdictions that already allow reduced disclosures for financial institutions (UK and the Republic of Ireland).

<u>Subsidiaries that have public accountability</u>

51 One respondent encouraged the IASB to elaborate on the potential use of such a standard by subsidiaries that have public accountability. This respondent noted that there may be circumstances where subsidiaries have only limited disclosure requirements within their jurisdiction and would adopt IFRS Standards if a limited scope of disclosures was available (and subject to the local requirements). Hence, this could be an attractive alternative for these subsidiaries.

Other views on the scope

52 One respondent suggested that the IASB should better assesses the impact and the advantages and disadvantages of a broader scope.

53 One respondent saw no advantages in a different scope for the standard.

Used terminology

54 Some respondents expressed concerns about the terminology used by the IASB when defining its scope:

(a) the definition of 'holding assets in a fiduciary capacity as one of its primary businesses' are terms that are difficult to assess. Therefore, we suggest the IASB to provide more guidance in that respect;

(b) disagreed with the IASB's conclusion that insurers are always holding assets they invest in a fiduciary capacity and, as such, prevent the insurers to be included in the scope of application of the Standard; and

(c) highlighted that EU legislation contains different and specifically defined terms, such as admitted to trading on a regulated market of any Member State, credit institutions, insurance companies or investment services companies. To provide more legal clarity and certainty, the scope should be defined by reference to definitions contained in EU legislation.

EFRAG's question to constituents: Do you foresee any incompatibilities between the IASB's proposals included in the ED and EU accounting legislation, such as Regulation (EC) No 1606/2002 or the Directive 2013/34/EU?

55 Three respondents highlighted that the IASB's notion of public accountability is different from the notion of Public Interest Entities' (PIEs) included in the Accounting Directive 2013/34/EU. Some of these respondents detailed that:

(a) the term public accountability was wider than the term PIE and that this could be a potential incompatibility;

(b) reporting requirements on "public-interest entities" could have the effect of (further) restricting or changing the scope of subsidiaries that are permitted to apply the draft Standard in the EU Member States and this needs to be subject to further considerations.

56 By contrast, one respondent considered the term 'public accountability' sufficiently coincides with 'public interest entities', so it did not expect significant interpretation problems in practice. However, this respondent acknowledged that the application of the criterion "it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses", which is derived from IFRS for SMEs (not often used within the European Union), may be difficult to be applied in practice.

57 Finally, two respondents suggested that from the perspective of acceptance of this standard in the European Union, there should be an evaluation of whether the reduced disclosures are still at least equivalent to the disclosure requirements of the

Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements.

At the end of the reporting period

58 One respondent did not share EFRAG's concern regarding the scope requirement based on the facts and circumstances at the end of the reporting period. This respondent believed that an entity that ceases to be a subsidiary before the end of the reporting period should not be eligible for the standard. Moreover, it is not uncommon that the fact and circumstances at the (exact) end of the reporting period are decisive for exemptions to be available.

EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position

59 The EFRAG Secretariat suggests EFRAG rearticulates its initial position based on the feedback received.

60 In particular, to state that EFRAG recognises the benefits and 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.

61 That EFRAG also acknowledges that there is a demand for the IASB to consider widening the scope, to include, for example, 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 or even all entities without public accountability.

62 Nonetheless, EFRAG also acknowledges 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.

63 Considering this, at this stage, EFRAG supports that the IASB should proceed with its project and that a final IFRS Standard on reduced disclosures should be available, at least, to subsidiaries without public accountability on an optional basis (i.e. the scope should not be narrower).

64 Still, EFRAG would suggest that the IASB, as soon as it finalises its IFRS Standard, launches a phase 2 project assessing scope extensions (i.e., not wait until post-implementation review). Such project should consider whether the reduced disclosures IFRS Standard would provide sufficient and relevant information to users of financial statements (including non-controlling shareholders and creditors) of the reporting entities mentioned above: associates, joint ventures, joint operations, not listed insurance subsidiaries, not listed banks that are subsidiaries, separate financial statements of ultimate parent entities and all entities without public accountability. If so, the IASB should also make an impact assessment of extending the scope (e.g., more use of IFRS Standards, less use of full disclosures under IFRS Standards, quality of application of IFRS Standards, etc).

65 Finally, the EFRAG Secretariat suggests that EFRAG expresses 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 (these concepts are not currently being used in IFRS Standards) and they could be in conflict with existing legal terms used in different EU Member States.

Question 3—Approach to developing the proposed disclosure requirements

Paragraphs BC23–BC39 of the Basis for Conclusions explain the IASB's reasons for its approach to developing the proposed disclosure requirements.

Do you agree with that approach? Why or why not? If not, what approach would you suggest and why?

EFRAG's tentative position

EFRAG welcomes the IASB's proposal to consider the principles in paragraph BC157 of *IFRS for SMEs* when there is a need to tailor the disclosure requirements. However, EFRAG considers that the key principles proposed by the IASB in paragraph BC33 of the Basis for Conclusions should encompass cost-benefit considerations.

EFRAG also highlights 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.

Summary of constituents' comments

66 All of the respondents who replied to this question (8 respondents) **agreed with the IASB's approach** for developing the proposed disclosure requirements (i.e., start with the disclosure requirements in the *IFRS for SMEs* Standard and tailor the disclosure requirements in IFRS Standards when there is a recognition and measurement difference between IFRS Standards and the *IFRS for SMEs* Standard). Some of these respondents explained that:

(a) the IASB only made minor changes and improvements to the IFRS for SMEs Standard in the last periodic review, constituting evidence that the disclosures of the *IFRS for SMEs* Standard remain valid and could be used in the approach to developing this ED;

(b) the proposed approach pursues a consistent progression from *IFRS for SMEs* Standard to the new draft Standard and thus avoids unnecessary discontinuity for entities already applying *IFRS for SMEs* Standard, building on the experience gained from the application of the *IFRS for SMEs* Standard; and

(c) the disclosure requirements of the *IFRS for SMEs* Standard have already been assessed by the IASB as suitable for entities without public accountability, and thus are appropriate when recognition and measurement requirements are the same in both IFRS Standards and the *IFRS for SMEs* Standard.

67 However, some respondents provided **additional comments or suggestions** on the proposed approach by the IASB:

(a) One respondent highlighted the importance of not introducing additional disclosure requirements to those required by IFRS Standards (ED paragraph 25 (a) is an additional requirement that does not exist in IFRS 1), when using the *IFRS for SMEs* Standard disclosure requirements or tailoring the IFRS Standards' disclosures;

(b) One respondent pointed out that the reduced disclosure requirements in the draft Standard have to be coordinated with the *IFRS for SMEs Standard*, so that disclosure requirements in *IFRS for SMEs* Standard are not more onerous than those in the draft standard;

(c) One respondent agreed with the proposed approach but indicated that an alternative approach could have also been reasonable. Developing the

reduced disclosure requirements based on full IFRS and tailoring them to the information needs of primary users of financial statements of non-publicly accountable subsidiaries would have had the advantage that the reduced disclosure requirements would be derived directly from the information needs of the users of financial statements. Furthermore, it should be considered that the *IFRS for SMEs* Standard is amended no more frequently than every 3 years and the draft standard would be updated on a continuous basis (for any new disclosure requirements or amendment to disclosure requirements arising from new IFRS Standards or amendments to IFRS Standards issued in the future), leading to different approaches in both standards.

EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position

68 Considering the feedback received, the EFRAG Secretariat suggests highlighting more in EFRAG's position 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),

Question 4—Exceptions to the approach

Paragraphs BC40–BC52 of the Basis for Conclusions explain the IASB's reasons for the exceptions to its approach to developing the proposed disclosure requirements. Exceptions (other than paragraph 130 of the draft Standard) relate to:

- disclosure objectives (paragraph BC41);
- investment entities (paragraphs BC42–BC45);
- changes in liabilities from financing activities (paragraph BC46);
- exploration for and evaluation of mineral resources (paragraphs BC47–BC49);
- defined benefit obligations (paragraph BC50);
- improvements to disclosure requirements in IFRS Standards (paragraph BC51); and
- additional disclosure requirements in the IFRS for SMEs Standard (paragraph BC52).

(a) Do you agree with the exceptions? Why or why not? If not, which exceptions do you disagree with and why? Do you have suggestions for any other exceptions? If so, what suggestions do you have and why should those exceptions be made?

(b) Paragraph 130 of the draft Standard proposes that entities disclose a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. The proposed requirement is a simplified version of the requirements in paragraphs 44A–44E of IAS 7 Statement of Cash Flows.

(i) Would the information an eligible subsidiary reports in its financial statements applying paragraph 130 of the draft Standard differ from information it reports to its parent (as required by paragraphs 44A–44E of IFRS 7) so that its parent can prepare consolidated financial statements? If so, in what respect?

(ii) In your experience, to satisfy paragraphs 44A–44E of IAS 7, do consolidated financial statements regularly include a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities?

EFRAG's tentative position

EFRAG is concerned that in some cases the IASB's reasoning for making the exceptions is not entirely clear, making them complex to understand. In addition, EFRAG is also concerned that the list of exceptions in paragraph BC40 of the Basis for Conclusion seems to be incomplete.

Finally, the IASB should consider the interaction between its Exposure Draft on reduced disclosures for subsidiaries (a project where the emphasis is put on having a list of simplified disclosures for subsidiaries) with the Exposure Draft Disclosure Requirements in IFRS Standards - A Pilot Approach (where the emphasis is put on defining the disclosure objectives and not on the list of disclosures).

Summary of constituents' comments

69 Most respondents that replied to this question (8 responses) generally agreed with the exceptions to the approach as outlined in paragraphs BC40–BC52 of the Basis for Conclusions.

70 However, many of these respondents disagreed with specific exceptions (e.g., the IASB's exception related to disclosures objectives).

71 It is worth noting, that respondents' comments focused mainly on the IASB's exception related to disclosures objectives (i.e., not include disclosure objectives in the draft Standard) and the interaction of this exception with the IASB ED *Disclosure Requirements in IFRS Standards – A Pilot Approach*.

Exception related to disclosure objectives

72 The majority of the respondents that agreed with the exceptions explicitly supported the exclusion of the exposure draft from the general disclosure objectives of IFRS Standards (as referred to in BC41). One respondent expected that omitting disclosure objectives from the ED would decrease the amount of judgement and save costs when preparing financial statements.

73 By contrast, one respondent did not agree with the proposed exceptions and generally preferred using disclosure objectives in the draft standard (instead of following a more checklist-based approach) because:

(a) reduced disclosures based on disclosure objectives may still meet the information needs of users (if disclosures explain how the specific needs of users of financial statements of entities without public accountability are met);

(b) restricting the disclosures to a limitative set of requirements may impair the true and fair view when additional disclosures are needed, given specific facts and circumstances of the reporting entity.

74 Moreover, this respondent noted that the ED still includes some objective-based disclosure requirements from full IFRS Standards (paragraph 44 of IFRS 7 and paragraph 120 of IAS 1).

75 Finally, one respondent highlighted a potential conflict between the objectives of the exposure draft and paragraph 17 (c) of IAS 1, relating to disclosures based on materiality. In paragraph BC34 of the Basis for Conclusions, the IASB pointed out that it used *the IFRS for SMEs Standard* to develop the disclosure principles in the ED, focusing on the information needs of the primary users of non-publicly traded entities. The respondent suggested including the principles from paragraph BC34 in the ED to clarify that materiality judgement of paragraph 17 (c) of IAS 1 should be made in the context of this narrower primary user group. Furthermore, in this respondents' view, additional associated guidance was needed to avoid entities disclosing information beyond necessity.

Interaction of the exception on disclosure objectives with the IASB ED Disclosure Requirements in IFRS Standards – A Pilot Approach.

76 Many of the respondents to this question pointed out that the IASB's approach to the exceptions in the ED (disclosures are more checklist-based) introduced an inconsistency with the proposed approach in the exposure draft *Disclosure Requirements in IFRS Standards – A Pilot Approach* (disclosures are more principle-based). In particular, respondents:

(a) explained 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 (in case both projects are carried on);

(b) suggested that the IASB considers following an objectives-based approach when developing the disclosure requirements (similar to the IASB's project Disclosure Requirements in IFRS Standards – a Pilot Approach); and

(c) suggested that the IASB considers how to conceptually align the approaches if both projects are carried on

Other comments received

77 In addition, a significant number of respondents to this question highlighted the need for more educational material regarding the IASB's rationale when developing the exceptions to its approach. They suggested that the IASB includes:

(a) a table of concordance which explains any differences between the *IFRS for SMEs* Standard and the draft standard as well as the reasoning behind them;

(b) additional explanation to which principle the exceptions relate to (e.g., exclusion of disclosure objectives: it was not clear whether this is an exception to the principle of tailoring the IFRS for SMEs when there is a recognition or measurement difference or an exception to the approach described in paragraph BC 157 of the Basis for Conclusions of IFRS for SMEs, or some other principle.);

(c) additional arguments for considering some recent improvements to disclosure requirements in IFRS standards, while leaving out others; and

(d) some paragraphs from full IFRS Standards that give additional guidance on how to apply the disclosure requirements which are not included in the exposure draft (e.g., paragraphs 37-39 of IAS 2).

78 Finally, one respondent suggested keeping the disclosure requirements in the *IFRS for SMEs* Standard instead of tailoring the disclosure requirements in case of:

(a) specific requirements for investment entities (as they are considered to be outside of the scope, holding assets in a fiduciary capacity); and

(b) IAS 19 disclosures (as smaller entities may only have a few, if any, beneficiaries of a defined benefit pension plan).

EFRAG's question to constituents: Would the information required by paragraph 130 of the ED (reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities) differ from the information reported by the parent?

79 The majority of respondents who replied to the questions to constituents (7 respondents) did not expect any problem for the parents' preparation of consolidated financial statements if an eligible subsidiary reports according to paragraph 130 of the ED.

80 However, others concluded that such information should not be required by the exposure draft as they considered the additional effort to produce this information to outweigh its benefit to users. One of these respondents:

(a) stated that it could be assumed that subsidiaries with external financing arrangements are protected by a parental guarantee, leaving the assessment of solvency to be based on the absolute amount of debt financing at group level. Thus, questioned whether there was demand for this type of information at subsidiary level as it could be assumed that subsidiaries with external financing arrangements fall under a parental guarantee; and

(b) Noted that a subsidiary may not provide such a reconciliation on a separate entity level and that some initial conversations with preparers were indicative of a difference in reported information.

EFRAG's question to constituents: Do consolidated financial statements regularly include a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities?

81 The majority of respondents who replied to the questions to constituents (7 respondents) observed that a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities is generally disclosed in consolidated financial statements (even if the concrete wording may result in a different presentation between IAS 7.44A-E and paragraph 130 of the ED).

82 In particular, one of these respondents observed that although the different wording may result in divergent presentation, in practice the reconciliation is presented in such a manner that it complies both to IAS 7.44A-E and to paragraph 130 of the ED.

83 However, others pointed out that this disclosure is not required for consolidated financial statements. These respondents:

(a) Noted that this disclosure is not required in local GAAP, neither for consolidated nor for individual financial statements;

(b) suggested that the IASB reconsiders whether disclosures on changes in liabilities from financing activities (as proposed by paragraph 130) are necessary for subsidiaries, or whether these disclosure requirements can be omitted in their entirety due to the complexity of determining this information from the perspective of preparers of financial statements. These disclosures usually cannot be (fully) generated automatically by ERP systems and therefore must be determined manually (e.g., in paragraph 44C of IAS7).

EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position

84 Considering the feedback received, the EFRAG Secretariat suggests that EFRAG adds a sentence to paragraph 59 of EFRAG's DCL that in general, EFRAG welcomes and agrees with the exceptions provided by the IASB.

85 In addition, the EFRAG Secretariat recommends changing paragraph 64 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, EFRAG suggests that further research is made to determine whether requiring such information at subsidiary level would encompass cost-benefit considerations.

86 Finally, when referring to disclosure objectives (paragraph 76 of EFRAG DCL), the EFRAG Secretariat suggests that EFRAG mentions, as an example of the interaction with the IASB project *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—Disclosure requirements about transition to other IFRS Standards

Question 5

Any disclosure requirements specified in an IFRS Standard or an amendment to an IFRS Standard about the entity's transition to that Standard or amended Standard would remain applicable to an entity that applies the Standard.

Paragraphs BC57–BC59 of the Basis for Conclusions explain the IASB's reasons for this proposal.

Do you agree with this proposal? Why or why not? If not, what approach would you suggest and why?

EFRAG's tentative position

EFRAG welcomes that disclosure requirements for transition provisions of new and amended IFRS Standards would have to be applied by subsidiaries without public accountability that elect to apply the reduced-disclosure IFRS Standard.

EFRAG also welcomes paragraph 5 of the ED which clearly states that any disclosure requirements specified in a new or amended IFRS Standard about the entity's transition to that Standard would remain applicable, even if these disclosures are not inside the reduced-disclosure IFRS Standard itself.

Summary of constituents' comments

87 EFRAG received nine responses to this question.

88 All respondents who replied to this question agreed with the IASB's proposal that any disclosure requirements specified in an IFRS Standard or an amendment to an IFRS Standard about the entity's transition to that Standard or amended Standard would remain applicable to an entity that applies the Standard.

89 One respondent welcomed the IASB's proposals, but invited the IASB to assess, when drafting disclosure requirements about transition to a new or amended standard, whether all transition disclosure requirements to a new or amended standard would remain relevant for entities that would apply the future standard.

90 Two respondents, although agreeing with the IASB proposals, suggested the IASB to consider, when developing a new IFRS Standard, whether any relief regarding the transition disclosures would be appropriate for subsidiaries within the scope of the proposed draft Standard. In these respondents' view, the IASB should not adopt the complete set of transition disclosures (of a new or amended IFRS Standard) in draft Standard without any review.

EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position

91 Based on the feedback from constituents, the EFRAG Secretariat does not propose any changes to the EFRAG's draft response.

92 The EFRAG Secretariat recommends that the IASB considers, 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—Disclosure requirements about insurance contracts

Question 6

The draft Standard does not propose to reduce the disclosure requirements of IFRS 17 Insurance Contracts. Hence an entity that applies the Standard and applies IFRS 17 is required to apply the disclosure requirements in IFRS 17. Paragraphs BC61–BC64 of the Basis for Conclusions explain the IASB's reasons for not proposing any reduction to the disclosure requirements in IFRS 17.

(a) Do you agree that the draft Standard should not include reduced disclosure requirements for insurance contracts within the scope of IFRS 17? Why or why not? If you disagree, from which of the disclosure requirements in IFRS 17 should an entity that applies the Standard be exempt? Please explain why an entity applying the Standard should be exempt from the suggested disclosure requirements.

(b) Are you aware of entities that issue insurance contracts within the scope of IFRS 17 and are eligible to apply the draft Standard? If so, please say whether such entities are common in your jurisdiction, and why they are not considered to be publicly accountable.

EFRAG's tentative position

EFRAG acknowledges the IASB's arguments included in paragraph BC64 of the Basis for Conclusions for not proposing the reduced disclosure requirements for insurance contracts. However, EFRAG considers that they are not compelling and that the application a full set of disclosure requirements for IFRS 17 might result in undue costs and efforts and bring no or little benefit to the users of financial statements.

Therefore, EFRAG is asking a question to constituents to better understand what entities in the scope of the ED issue insurance contracts and what type of disclosures would be relevant for them.

Summary of constituents' comments

93 The majority of respondents replied to this question. They provided mixed views on whether the IASB should reduce the disclosure requirements of IFRS 17 *Insurance Contracts*.

Support for the IASB's proposal to not reduce the disclosure requirements of IFRS 17

94 Three respondents agreed with the IASB proposals and acknowledged the IASB reasoning that it was too early to assess the requirements deriving from IFRS 17.

95 These respondents suggested that the IASB reconsiders this area after sufficient experience with applying IFRS 17 has been gained, through a post-implementation review, outreach or any other form of a dialogue with preparers to help to identify which disclosures should be reduced.

96 One respondent noted that preparing full IFRS 17 disclosure requirements for captive insurance companies within the same group or corporates that may have certain contracts falling in the scope of IFRS 17, but which are not engaged in insurance business, may not be relevant. For that reason, this respondent invited the IASB to perform additional outreach with the relevant stakeholders to identify opportunities for reductions in IFRS 17 disclosures under this ED.

97 One respondent did not see significant benefits for reduced disclosure requirements relating to IFRS 17.

Against the IASB's proposal to not reduce the disclosure requirements of IFRS 17

98 Two respondents, representing an association of insurers and two national standard setters, disagreed with the IASB proposals because they result in insurance entities being affected in a twofold adverse manner:

(a) The insurance undertakings are proposed to be generally excluded from the scope of the new IFRS Standard (please refer to Question 2 for details); and

(b) The ED includes no proposals how the complex disclosure requirements in IFRS 17 could be reasonably reduced for reporting entities issuing insurance contracts and being eligible to the scope of the proposed new IFRS Standard.

99 These respondents commented that:

(a) A potential set of reasonably reduced disclosure requirements for IFRS 17 should be explored and developed, similarly to IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*, when finalising the new IFRS Standard.

(b) The arguments in paragraph BC64, and in particular 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.

(c) The application of a full set of disclosure requirements for IFRS 17 would result in undue costs and efforts and bring no or only little benefit to the users of financial statements.

(d) The ED could establish a new principle that, if the IASB publishes a new or amended IFRS Standard, the complete set of the disclosure requirements of that Standard would apply (without any review) to subsidiaries within the scope of the draft Standard. This respondent suggested that it would be more appropriate to consider on a case-by-case basis whether the disclosure requirements introduced by a new or amended IFRS could be reduced for the entities in scope of this draft standard

100 To conclude, these respondents recommended the IASB to consider developing a reduced set of disclosure requirements for IFRS 17 when finalising the proposed new IFRS Standard.

Other views

101 One respondent had not reached yet a conclusion but noted 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. the group would not report on insurance activities due to materiality considerations).

102 Two respondents stated that they had no opinion on this issue.

EFRAG's question to constituents: In your jurisdiction, are there entities that issue insurance contracts within the scope of IFRS 17 and are eligible to apply the IASB's proposals?

103 In general, the respondents that replied to this question, were unaware of the size of the population of subsidiaries that both issue insurance contracts and may be eligible to apply the reduced-disclosure IFRS Standard. For example:

(a) One respondent replied that he was not aware of entities that issued insurance contracts within the scope of IFRS 17 and were eligible to apply the IASB's proposals.

(b) One respondent did not have information on the issue.

(c) One respondent did not have any data to evaluate how common this is.

104 Nonetheless, many respondents acknowledged that a limited number of subsidiaries would apply IFRS 17 and would be eligible to apply the reduced-disclosure IFRS Standard. For example:

(a) One respondent expected that only a few (if any) entities that issue insurance contracts within the scope of IFRS 17 and are eligible to apply the IASB's proposals;

(b) One respondent stated that insurance companies in the EU generally are considered to be public interest entities and would therefore not be able to apply the standard. However, there might also be non-financial corporates that are not insurance companies that issue insurance contracts within the scope of IFRS 17.

(c) One respondent noted that are cases whereby a group/company which does not have public accountability may have insurance contracts, and thus fall under the scope of this standard, and provided an example of the protection and indemnity insurance clubs.

(d) One respondent informed that there are insurance entities in its jurisdiction which may be eligible to apply the draft Standard. This is mainly the case for 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. According to this respondent, such entities would also be within the scope of the draft Standard.

(e) Another respondent noted that in its jurisdiction non-listed insurance companies shall prepare annual accounts according to national accounting principles, so it expected a very limited number of entities that issue insurance contracts within the scope of IFRS 17 that would be eligible to apply this ED.

EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position

105 Given the feedback received from respondents, the EFRAG Secretariat suggests amending 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.

106 The EFRAG Secretariat suggests adding to the draft response 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.

107 The response should also acknowledge that this question becomes particularly important if the scope of the ED is extended to include the non-listed insurance undertakings.

108 The EFRAG Secretariat also suggests adding 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.

109 The EFRAG Secretariat recommends 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).

110 The EFRAG Secretariat proposes 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 First-time Adoption of International Financial Reporting Standards

Question 7

Paragraphs 23–30 of the draft Standard propose reduced disclosure requirements that apply to an entity that is preparing its first IFRS financial statements and has elected to apply the Standard when preparing those financial statements.

If a first-time adopter of IFRS Standards elected to apply the draft Standard, the entity would:

- apply IFRS 1, except for the disclosure requirements in IFRS 1 listed in paragraph A1(a) of Appendix A of the draft Standard; and
- apply the disclosure requirements in paragraphs 23–30 of the draft Standard.

This approach is consistent with the IASB's proposals on how the draft Standard would interact with other IFRS Standards. However, IFRS 1 differs from other IFRS Standards—IFRS 1 applies only when an entity first adopts IFRS Standards and sets out how a first-time adopter of IFRS Standards should make that transition.

(a) Do you agree with including reduced disclosure requirements for IFRS 1 in the draft Standard rather than leaving the disclosure requirements in IFRS 1? Paragraphs 12–14 of the draft Standard set out the relationship between the draft Standard and IFRS 1.

(b) Do you agree with the proposals in paragraphs 12–14 of the draft Standard? Why or why not? If not, what suggestions do you have and why?

EFRAG's tentative position

EFRAG agrees with the IASB's approach that when applying IFRS Standards for the first time and simultaneously electing to apply the reduced-disclosure IFRS Standard, a subsidiary should apply the disclosure requirements proposed in the ED. EFRAG also welcomes the IASB's clarification in paragraph 13 of the ED on the interaction with IFRS 1.

Nonetheless, it may be useful to clarify in the main body of the ED that the use the of reduced-disclosure IFRS is not considered being a change in an accounting policy in accordance with IAS 8.

Summary of constituents' comments

111 Many respondents replied to this question.

112 All respondents who replied to this question agreed with the IASB proposals.

Whether the use the of reduced-disclosure IFRS is considered a change in an accounting policy in accordance with IAS 8

113 One respondent considered that the ED was already sufficiently clear that the use the of reduced-disclosure IFRS is not considered a change in an accounting policy in accordance with IAS 8 as it is related to the use of an optional IFRS Standard. Therefore, such a clarification as recommended by EFRAG is not necessary.

114 However, another respondent suggested to clarify in the body of the final standard that the use the of reduced-disclosure IFRS is not considered a change in an accounting policy in accordance with IAS 8.

Other views

115 One respondent noted that the paragraph 23 of the ED could be understood as a disclosure objective and not a specific requirement. Especially the wording in paragraph 25 of the ED: "To comply with paragraph 23, …" may support that understanding. This respondent suggested changing the wording of these paragraphs to avoid potential misunderstandings.

EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position

116 Given the feedback from respondents, the EFRAG Secretariat suggests not to make changes to the EFRAG's draft response.

Question 8—The proposed disclosure requirements

Question 8

Paragraphs 22–213 of the draft Standard set out proposed disclosure requirements for an entity that applies the Standard. In addition to your answers to Questions 4 to 7:

(a) Do you agree with those proposals? Why or why not? If not, which proposals do you disagree with and why?

(b) Do you recommend any further reduction in the disclosure requirements for an entity that applies the Standard? If so, which of the proposed disclosure requirements should be excluded from the Standard and why?

(c) Do you recommend any additional disclosure requirements for an entity that applies the Standard? If so, which disclosure requirements from other IFRS Standards should be included in the Standard and why?

EFRAG's tentative position

EFRAG highlights that the assessment of users' needs in terms of disclosures (i.e. whether the IASB's proposed disclosures are sufficient) is difficult and subjective. Therefore, EFRAG expects that during its consultation period EFRAG will receive more input on disclosures that should be added or deleted.

Nonetheless, EFRAG suggests that the IASB adds a number of disclosures identified below as they are relevant for users of financial statements and would not increase significantly the costs for preparers.

Summary of constituents' comments

117 Respondents that answered to the question provided mixed views on the right level of disclosure requirements for the entities that apply the draft Standard.

(a) **Agreed with the proposed disclosures**: Two respondents agreed with the IASB's proposed disclosure requirements.

(b) **Requested for additional disclosures:** Three respondents suggested additional disclosures to the IASB. For example:

(i) IFRS 3: suggested adding disclosure requirements about the primary reasons for the business combination; amounts recognised in the financial statements for the business combination that have been determined provisionally (if a business combination is not finalised at the

end of the reporting period) and any gain or loss recognised as a result of remeasuring to fair value the equity interest in a business combination achieved in stages (*already mentioned by EFRAG in its DCL*);

(ii) *IFRS 7*: suggested more disclosures about liquidity and liquidity risk, specifically the maturity analysis for liabilities specified in IFRS 7, paragraph 39). As paragraph BC34 of the ED confirms, information about an entity's liquidity is useful information;

(iii) *IFRS 12*: suggested requiring disclosures about the composition of a group and the consolidated and unconsolidated entities (when a subsidiary is a sub-holding) (*already mentioned by EFRAG in its DCL*);

(iv) *IFRS 15*: suggested requiring disclosures based on paragraphs 110(b), 119(a), 119(c) and 123 of IFRS 15. Paragraph BC34 identifies information about measurement uncertainties as being important. Given the importance of an entity's reported revenue, there is a need to add disclosure requirements about revenue estimates and the related significant judgements the entity has made (*already mentioned by EFRAG in its DCL*);

(v) *IAS 12*: suggested requiring disclosures based on paragraph 82 in relation to the basis of recognising a deferred tax asset.

(vi) *IAS 27*: In regard to the separate financial statement of a subsidiary, suggested requiring disclosures about significant investments in subsidiaries, joint ventures and associates, including the name of those investees; the principal place of business (and country of incorporation, if different) of those investees; and its proportion of the ownership interest (and its proportion of the voting rights, if different) held in those investees;

(vii) *IAS 36*: suggested adding disclosure requirements about calculation of recoverable amount, in particular the period over which management has projected cash flows based on financial budgets/forecasts approved by management; the growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/ forecasts; and the discount rate(s) applied to the cash flow projections (*already mentioned by EFRAG in its DCL*);

(viii) *IAS 37*: disclosures based on IAS 37 paragraph 85(b), specifically in relation to the major assumptions made concerning future events upon which a provision has been measured; and

(ix) *IAS 34*: do not expect that interim reporting will be relevant for eligible entities. Consequently, suggest that the IASB does not need to provide reduced disclosures for this standard.

(c) **Further reduction in the disclosures**: Two respondents recommended further reduction of the disclosure requirements for an entity that applies the ED, in particular, when the costs of preparation of the disclosures at subsidiary level exceed their usefulness or other disclosures of the group's consolidated financial statements are sufficient to meet users' needs. These respondents considered that the following disclosures should be removed from the draft Standard:

(i) *IFRS 2*: remove paragraphs 31(b), 32, 33 and 34 of the ED, as the disclosures required under paragraph 31 (a) on the description of the arrangements, and 35 (a) and (b) on the share-based payments related disclosures included in the financial statements notes such as expenses

and liabilities, would be sufficient for subsidiaries' financial statements users;

(ii) *IFRS 7*: remove paragraphs 45, 46, 47, 48, and 55 of the ED related to financial liabilities at fair value through profit or loss, as paragraph 43 already requires the company to disclose the carrying amount of the financial assets and liabilities at the reporting date, by category. Further details regarding the movement in financial instruments during the period will not be relevant for the users of the subsidiaries' financial statements. In addition, Paragraphs 56 and 57 require subsidiaries to disclose the nature of the hedging instruments and their carrying amount. These disclosures will be sufficient for the users to determine the subsidiaries' financial health;

(iii) *IFRS 13*: remove paragraph 79 (b), 79(c) and 80 of the ED as paragraph 79 (a) already requires companies to disclose, for each class of assets and liabilities measured at fair value, the carrying amount at the end of the reporting period;

(iv) *IFRS 15*: remove paragraphs 94(a), 95, 96, 97 of the ED as the disclosure requirements detailed in paragraph 89 i.e., revenue from contracts with customers disaggregated into categories based on how revenue and cash flows are affected by economic factors, provide all the relevant information for the relevant users;

(v) *IFRS 15:* remove paragraph 92 (b) of the ED (revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period) as this disclosure may be burdensome for entities, especially in cases where a significant portion of the revenues results from inter-group activities, if such information does not need to be reported to the parent;

(vi) *IFRS 16*: remove paragraphs 100 (d), 100(e), 106 (a), 107(a) and 107(c) of the ED as for subsidiaries whose business model does not consist mainly of leasing and subleasing activities these disclosures will not be relevant for their financial statement users;

(vii) *IAS 1*: remove paragraph 114 and 115 of the ED, as users of the subsidiaries' financial statements are interested in the current and future financial information, rather than the impact on previous balances or the effect such changes may have for presentation purposes;

(viii) *IAS 7*: remove paragraph 130 of the ED, as the relevant information required by this disclosure can be obtained from the cash flow;

(ix) *IAS 12*: remove paragraph 147(e) of the ED, as the deferred taxes concept does not exist in most tax legislations, or it is defined based on local tax authority requirements which may differ from IAS 12 definition of deferred tax. Consequently, and considering that the draft Standard has several disclosure requirements related to income tax (including the impact in tax expense or income due to changes in deferred taxes in paragraph 146 (c)), showing the amount of deferred tax at the end of the reporting period by category does not seem relevant for the users of the subsidiaries' financial statements;

(x) *IAS 19:* remove paragraphs 152 (b), (c), (d) (e) and 155 of the ED, as the disclosures required under paragraphs 152 (a) i.e., a general description of the type of plan and (f) i.e., the principal actuarial assumptions used, provide information which reasonably allows interested users to make their decisions;

(xi) *IAS 19*: remove paragraph 152 of the ED as there is no reason for an exception to the general approach. Instead, suggest using the disclosure requirements of IFRS for SMEs.

(xii) *IAS 21*: remove paragraph 161(b) of the ED, as the information of foreign exchange translation reserve presented in the statement of profit or loss as other comprehensive income and in the statement of changes in equity is sufficient for users.

Additional suggestions

118 In addition, respondents provided a number of suggestions to the IASB:

(a) considered that the IASB should clearly identify the users of the subsidiaries' financial statements so that information to be disclosed is directly driven by what they deem useful;

(b) recommended an evaluation as to whether the reduced disclosures are still at least equivalent to the disclosure requirements of the Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements. This may improve widespread acceptance and application of the standard;

(c) the IASB should emphasize more clearly in its ED that a subsidiary should include additional disclosures if this is necessary for providing a true and fair view, as required under paragraph 15 of IAS 1;

(d) suggested that the IASB develops a table of concordance which explains any differences in the disclosure requirements between the *IFRS for SMEs* Standard and the draft Standard and its reasoning for that decision;

(e) suggested that the IASB provides a general description of the information that will be lost when applying the ED compared to full IFRS. Such a general description would be necessary to assess the significance of the loss of information;

(f) invited the IASB to compare its proposals with AASB 1060 and FRS 101 where a significant number of disclosure exceptions are granted;

(g) not agree with the IASB adding disclosure requirements from IFRS Standards when there are no recognition or measurement differences. This applies, for example, to the following disclosure requirements of the draft Standard

(i) paragraph 70 – disclosures about the consequences of losing control of a subsidiary during the reporting period (ref. paragraph 19 of IFRS 12),

(ii) paragraph 136 – disclosures about the possible impact of a new IFRS Standard that has been issued but is not yet effective (ref. paragraph 30 of IAS 8), and

(iii) paragraph 182 – disclosures of those recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32 (ref. paragraph 13C of IFRS 7)

EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position

119 The EFRAG Secretariat recommends that EFRAG does not significantly change its initial position. The EFRAG Secretariat recommends only the addition of some disclosures mentioned by stakeholders and considered relevant for users of financial statements (mainly for intermediate parents and for investments in associates, joint ventures and joint arrangements) and removal of others. More specifically:

(a) introduce in paragraph 107 of the ED 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 in paragraph 107 that such disclosures would only affect intermediate parents and not individual subsidiaries.

(b) 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).

(c) 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.

120 In regard to the in some CL proposed removal of some 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). Therefore, the EFRAG Secretariat is not proposing any reduction at this stage.

Question 9—Structure of the draft Standard

Paragraphs 22–213 of the draft Standard set out proposed disclosure requirements for an entity that applies the Standard. These disclosure requirements are organised by IFRS Standard and would apply instead of the disclosure requirements in other IFRS Standards that are listed in Appendix A. Disclosure requirements that are not listed in Appendix A that remain applicable are generally indicated in the draft Standard by footnote to the relevant IFRS Standard heading. Paragraphs BC68–BC70 explain the structure of the draft Standard.

Do you agree with the structure of the draft Standard, including Appendix A which lists disclosure requirements in other IFRS Standards replaced by the disclosure requirements in the draft Standard? Why or why not? If not, what alternative would you suggest and why?

EFRAG's tentative position

EFRAG supports the IASB's approach and highlights the importance of having 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.

Summary of constituents' comments

121 Respondents that replied to this question have provided mixed views. (9 respondents)

122 The majority of respondents who replied to this question agreed with the IASB's proposed structure of the draft standard. One of these respondents agreed with the IASB's proposal in principle but suggested consolidating all disclosure requirements in a comprehensive document in the medium- or long-term future, expecting a more practical application of the proposed standard.

123 By contrast, many of the respondents that replied to this question did not agree with the proposed structure of the ED. Some of these respondents noted that:

(a) it would be challenging to navigate through the standard with three separate sections of disclosure requirements (main body, footnotes and Appendix A);

(b) the references to disclosures in full IFRS Standards make the standard less accessible as a stand-alone standard, especially when the standard intends to present a complete set of disclosure requirements.

124 These respondents expected that incorporating all disclosure requirements in the main body of the ED (instead of introducing some by way of footnotes referring to other IFRS Standards and listing the disclosure requirements to be replaced in Appendix A of the draft standard) could simplify the structure and aid applicability for preparers, users and auditors.

125 One respondent suggested the IASB to generally introduce disclosure requirements by way of an IFRS Taxonomy for disclosure requirements, especially in consideration against the background of increased importance of electronic reporting.

EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position

126 Considering the feedback received, EFRAG Secretariat suggests to improve paragraph 133 of EFRAG's DCL, where EFRAG generally supports the IASB's approach, by explaining that using the 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).

127 However, in accordance with feedback received, EFRAG Secretariat recommends EFRAG to acknowledge in its final comment letter that there is support for incorporating all disclosure requirements (footnotes and Appendix A) in the main body of the exposure draft and urging the IASB to further consider the feasibility of such an approach.

Question 10—Other comments

Do you have any other comments on the proposals in the draft Standard or other matters in the Exposure Draft, including the analysis of the effects (paragraphs BC92–BC101 of the Basis for Conclusions)?

128 No comments received or allocated to other questions.

Appendix 1 – List of respondents

Name of constituent	Country	Type/Category
SEAG	Sweden	National Standard Setter
DASC	Denmark	National Standard Setter
SAP	Germany	Preparer - Corporate
DASB	Holland	National Standard Setter
ANC	France	National Standard Setter
CNC	Spain	National Standard Setter
AE	Europe	Accounting Organisation
GDV	Germany	Insurance Association
IE	Europe	Insurance Association
Erste Group	Austria	Preparer – Financial Institution
ICPAC	Cyprus	National Standard Setter
ICAC	Spain	National Standard Setter
BE	Europe	Preparer’s organisation
ASCG	Germany	National Standard Setter
AFRAC	Austria	National Standard Setter
OIC	Italy	National Standard Setter