EFRAG FRB
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EFRAG Secretariat: SWPA team

SUBSIDIARIES WITHOUT PUBLIC ACCOUNTABILITY: DISCLOSURES

EFRAG FRB meeting – Update

30 March 2023

EFRAG
Financial reporting

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STATUS OF THE PROJECT

IASB EXPOSURE DRAFT AND EFRAG COMMENT LETTER

- In **July 2021**, the IASB published the ED *Subsidiaries Without Public Accountability: Disclosures*
- In **September 2021**, EFRAG published its Draft Comment Letter. During the consultation period, EFRAG organised several outreach events and issued two bulletins (EFRAG Secretariat Briefing - Compatibility study and EFRAG Secretariat Briefing - Subsidiaries without Public Accountability - Who can apply it)
- In **February 2022**, EFRAG issued its Final Comment Letter and Feedback Statement
- Since **April 2022**, the IASB has been discussing the feedback received and is redeliberating the proposals
- In **September 2022**, the IASB published its Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard* with a question on potential improvements to the definition of public accountability (Comments to be received by 7 March 2023)

Q2 2021
ED Published

Q3 2021
EFRAG DCL

Q3 2021 to Q1 2022
Outreach events

Q1 2022
EFRAG FCL

Q3 2022
ED IFRS for SMES (Q1)

2022-2023
Monitoring IASB's Discussions

FEEDBACK RECEIVED BY THE IASB

KEY COMMENTS RECEIVED BY THE IASB

- Most respondents agreed with the objective of the draft Standard. Many reiterated the expected benefits of the proposals – reducing costs and simplifying preparation of financial statements. Nonetheless, some respondents expressed concerns about how it would interact with local regulations and the risk of loss of information for material subsidiaries
- Respondents had mixed views on the proposed scope. Although, some respondents agreed with the proposed scope, many respondents suggested a wider scope allowing more entities to apply the draft Standard. However, respondents had different views on what that wider scope should be. Some respondents also suggested that the IASB considers widening the scope at a later stage
- Many respondents agreed with the IASB's approach to developing the proposed disclosure requirements. Some respondents had concerns about how the proposed disclosure requirements were developed and the relationship between the draft Standard and the IFRS for SMEs Accounting Standard
- Many respondents provided comments on the proposed disclosure requirements. These comments were wide-ranging across different IFRS Accounting Standards
- Mixed views on the proposed structure. Many agreed that the draft Standard should be a separate IFRS Accounting Standard. However, many disagreed with having footnotes on other IFRS Accounting Standards that continue to apply

EFRAG FR TEG-CFSS DISCUSSIONS

KEY COMMENTS PROVIDED BY EFRAG TEG-CFSS

- In September 2022 the EFRAG FR TEG-CFSS members received an update. Members also discussed the use of the concept ‘available for public use’, the proposed disclosure requirements and the structure of the draft IFRS Standard
- In general, members did not consider that the concept of ‘available for public use’ was a fundamental qualifying criterion, however noted that the removal of such concept could raise wider questions on the scope, such as the need for having a parent
- EFRAG TEG-CFSS members generally agreed with the IASB staff suggested process for responding to the feedback on the disclosure requirements proposed in the draft Standard
- On the structure of the draft IFRS Standard, members highlighted the importance of having an independent and stand-alone reduced-disclosure IFRS Standard that clearly identifies all the disclosure requirements that preparers need to comply with

ASAF DISCUSSIONS

KEY COMMENTS PROVIDED BY ASAF MEMBERS

- A number of ASAF members supported the removal of the term ‘available for public use’ as it would permit more subsidiaries to apply the Draft Standard
- A number of ASAF members were neutral on removing or retaining the term ‘available for public use’ as it was not fundamental to the scope. However, suggested research on the effects of removing the requirement
- One member disagreed with removing the requirement on the grounds that there should be consistency between the scope of the draft Standard and IFRS 10
- A few members cautioned against providing guidance on the requirement because it might have unintended consequences on its application in IFRS Accounting Standards
- ASAF members generally agreed with the staff’s suggested process for responding to the feedback on the disclosure requirements proposed in the draft Standard
- Members expressed mixed views about Appendix A of the draft Standard
- Members considered useful to identify disclosure requirements in other IFRS Accounting Standards that remain applicable, however many preferred listing them in the main body of the Standard

IASB TENTATIVE DECISIONS

OBJECTIVE, SCOPE AND STATEMENT OF COMPLIANCE

So far, the IASB tentatively decided to:

- **confirm the objective of the project** - permit eligible subsidiaries to apply reduced disclosure requirements with the objective of reducing the costs of financial reporting while maintaining the usefulness of the financial statements (acknowledging that costs savings may differ depending on circumstances)
- **confirm the scope of the project,** including retaining the term 'are available for public use'
  - the IASB Staff initially proposed removing this concept, however 6 out of 11 IASB members were in favour of retaining the term "are available for public use" in the scope of the project
- **review the scope after the draft Standard has been finalised,** possibly during the post-implementation review

The IASB is also proposing clarifications to the **definition of 'public accountability' and 'fiduciary capacity'** in the Exposure Draft: *Third edition of the IFRS for SMEs Accounting Standard* (*Question 1*). The IASB's proposes clarifications without changing the intended scope of the Standard (i.e. banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks often would have fiduciary capacity and, hence, public accountability). Comments deadline was 7 March 2023. (EFRAG FRB discussed the interaction of the proposals with the legal requirements in Europe (mainly the definition of "PIE"). EFRAG FRB decided not to comment on the proposals as there was no consensus between the FRB members.)

IASB TENTATIVE DECISIONS

DEVELOPING THE DISCLOSURES REQUIREMENTS AND STRUCTURE

The IASB tentatively decided to:

- modify its approach to ensure that the **language used in the disclosure requirements** is the same as the language in full IFRS Accounting Standards (i.e. update the language in the proposed disclosure requirements to be the same as IFRS Accounting Standards to facilitate application)
- **explain in the Basis for Conclusions** on the IFRS Accounting Standard (i) why the disclosure requirements in the *IFRS for SMEs* Accounting Standard are the appropriate starting point, (ii) how 'cost–benefit' is considered; and (iii) the reason for the exceptions made to the approach to developing the proposed disclosure requirements
- **omit Appendix A** proposed in the draft Standard (seven of 11 IASB members agreed with this decision)
- **replace the footnotes with cross-references** to disclosure requirements that remain applicable in other IFRS Accounting Standards, under each IFRS Accounting Standard subheading (all 11 IASB members agreed with this decision)

IASB TENTATIVE DECISIONS

PROPOSED DISCLOSURE REQUIREMENTS

- The IASB decided staff should analyse the comments received on the proposed disclosure requirements in the draft Standard in three steps:
  - **Step 1** - stratify the comments on the proposed disclosure requirements based on how the proposed disclosure requirements were developed;
  - **Step 2** - assess the comments received against a set of factors:
    - the principles on users' information needs of non-publicly accountable entities' financial statements,
    - cost and benefit,
    - distribution of the comments received,
    - overall usefulness of information; and
    - previous IASB discussions and decisions on the disclosure requirement
  - **Step 3** - recommend any changes to the proposed disclosure requirements to the IASB.

IASB TENTATIVE DECISIONS

PROPOSED DISCLOSURE REQUIREMENTS

- The IASB tentatively decided to confirm that the disclosure requirements in the following IFRS Accounting Standards remain applicable for eligible subsidiaries (i.e. full disclosures would be required):
  - **IFRS 17 *Insurance Contracts*** - the IASB Board members asked the IASB staff to carefully explain the reasoning for not reducing the IFRS 17 disclosure requirements, including explanations that based on an initial analysis any reduction of disclosures was likely to be limited and highlight the timing risks of proposing reduced disclosure requirements for IFRS 17 (i.e. risks of re-exposure, disrupt implementation efforts on IFRS 17, reopening scope discussions and delaying the issuance of the reduced disclosure standard)
  - **IFRS 8 *Operating Segments***
  - **IAS 33 *Earnings per Share***
- The IASB tentatively decided to retain its proposals to include reduced disclosure requirements for:
  - **IAS 34 *Interim Financial Reporting***; and
  - ***IFRS 1 First-time Adoption of International Financial Reporting Standards*** and an explanation of the relationship between IFRS 1 and the new Standard

IASB TENTATIVE DECISIONS

UPDATING THE DISCLOSURES REQUIREMENTS AND OTHERS

- The IASB tentatively decided to include the disclosure requirements of IFRS Accounting Standards issued as of **28 February 2021** and consider amendments to the disclosure requirements in IFRS Accounting Standards issued after 28 February 2021 after the new Standard is issued (in a catch-up ED)
- The IASB confirmed its proposal to consider amendments to the new Standard at the same time it publishes an exposure draft for a new or amended Accounting Standard.
- The IASB tentatively decided to clarify that an eligible subsidiary that (i) elects to apply the new Standard, (ii) revokes an election to apply the new Standard or (iii) is no longer eligible to apply the new Standard:
  - does not apply the requirements in *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors* on changes in accounting policies; and
  - is not required to present a third statement of financial position (that is, a second comparative statement of financial position) as at the beginning of the earliest period presented.
- retain its proposal that a subsidiary **discloses that it has applied the Draft Standard** in the same note as its explicit and unreserved statement of compliance with IFRS Accounting Standards - some members stressed the importance of considering altogether the compliance statements in paragraphs 22, 110 (related to IAS 1) and 188 (related to IAS 34) of the ED when drafting the final IFRS Accounting Standard

EFRAG SECRETARIAT ANALYSIS

ISSUES RAISED BY EFRAG IN ITS COMMENT LETTER

- **Retaining the scope of the ED** - EFRAG suggested that the IASB continue with the current scope of the project but in parallel assesses the possibility of scope extension
- **Retaining the concept 'are available for public use' without clarifications -** EFRAG highlighted that the term 'available for public use' is already used in IFRS Accounting Standards but suggested that additional clarification is provided as it is a fundamental term to the scope of the project
- **Potential clarifications to the definition 'public accountability' and 'fiduciary capacity' in the IASB ED: *Third edition of the IFRS for SMEs Accounting Standard***: EFRAG recommended that, before the issuance of a new IFRS Standard on reduced disclosures, the IASB clarified the concept of holding assets in a fiduciary capacity (as insurers, for example, do not in general regard themselves as holding assets in a fiduciary capacity) and, therefore, explored the applicability of the ED to the insurance sector.

IASB TENTATIVE DECISIONS

Fairly aligned with EFRAG CL, although the IASB will only review the scope after the standard is issued

Not aligned with EFRAG CL as the IASB has not clarified the concept 'available for public use' which may raise questions for non-listed groups that use IFRS in Europe

Fairly aligned with EFRAG CL, although the IASB is proposing clarifications without changing the intended scope of the Standard for insurers. EFRAG will monitor the feedback received by the IASB on this topic

EFRAG SECRETARIAT ANALYSIS

ISSUES RAISED BY EFRAG IN ITS COMMENT LETTER

- **Changing the approach for developing the proposed disclosure requirements -** EFRAG generally agreed with the IASB's approach of using the IFRS for SMEs Standard as the starting point. However, EFRAG highlighted the risks of not considering the existing disclosure requirements in IFRS Standards in the light of BC157 when there are no recognition and measurement differences between IFRS for SMEs and IFRS Standards but there are differences in timing between the two (i.e. when IFRS for SMEs is not updated with latest developments in IFRS Accounting Standards, including changes to terminology)
- **Exceptions to the approach** - EFRAG expressed concerns that in some cases the IASB's reasoning for making the exceptions was not entirely clear, making them complex to understand. In addition, EFRAG was also concerned that the list of exceptions in paragraph BC40 of the Basis for Conclusion seemed to be incomplete.
- **Proposed disclosures** - EFRAG suggested a number of disclosures identified in Appendix 1 as they were relevant for users of financial statements and would not increase significantly the costs for preparers

IASB TENTATIVE DECISIONS

Fairly aligned with EFRAG CL as the IASB will update the language in the proposed disclosure requirements to be the same as IFRS Accounting Standards to facilitate application

Aligned with EFRAG CL as the IASB tentatively decided to better clarify the reason for the exceptions made to the approach to developing the proposed disclosure requirements

The IASB has not yet discussed the addition or removal of disclosures

EFRAG SECRETARIAT ANALYSIS

ISSUES RAISED BY EFRAG IN ITS COMMENT LETTER

- **Retaining IFRS 17 disclosure requirements –** EFRAG considered 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. Thus, EFRAG recommended that the IASB consider developing a reduced set of disclosure requirements for IFRS 17 and to engage in an outreach with the constituents to determine which disclosure requirements could be reduced before issuing a final IFRS Standard
- **Not a change in an accounting policy**: EFRAG considered that it would be useful to clarify in the main body of the ED that the use the of reduced disclosure IFRS Standard is not a change in an accounting policy in accordance with IAS 8
- **Removing footnotes and Appendix A** - EFRAG supported the proposed structure of the ED and highlighted the importance of having a stand-alone reduced-disclosure standard. However, EFRAG also recognised support for incorporating all disclosure in the main body instead of providing by reference in the footnotes and Appendix A

IASB TENTATIVE DECISIONS

Not aligned with EFRAG CL as the IASB confirmed that the disclosure requirements in IFRS 17 remain applicable for eligible subsidiaries (e.g. captive insurers)

Aligned with EFRAG CL

Fairly aligned with EFRAG CL, although the IASB will not incorporate all the disclosure requirements in the main body of the Standard. Only the cross-references will be in main body of the standard

QUESTIONS

QUESTIONS FOR EFRAG FRB

- **Do EFRAG FRB members have any comments on the IASB's tentative decisions to date?**
- **Do EFRAG FRB members agree on EFRAG Secretariat analysis on the IASB's latest tentative decisions?**

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Follow us:

35 Square de Meeûs, B-1000 Brussels
info@efrag.org - **www.efrag.org**

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Thank you

BACKGROUND - IASB EXPOSURE DRAFT

Objective of the ED

To permit eligible subsidiaries to apply IFRS Standards with **reduced disclosure requirements** in order to **simplify** and **reduce costs** of financial reporting while **maintaining the usefulness** of financial statements.

It is a voluntary IFRS Standard that sets out the reduced disclosure requirements for a eligible subsidiary and subject to an endorsement process in Europe

Eligible Subsidiary

A subsidiary would be eligible to apply the draft Standard if at the end of the reporting period that subsidiary:

- does not have public accountability (i.e. the entity is not traded in a public market and/or does not hold assets in a fiduciary capacity for a broad group of outsiders)
- has an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Standards

BACKGROUND - IASB EXPOSURE DRAFT

HOW THE IASB DEVELOPED THE DISCLOSURE REQUIREMENTS ?

Based on *IFRS for SMEs* disclosure requirements

Is there a recognition and measurement difference with IFRS Standards?

NO

Use the disclosure requirements in the IFRS for SMEs Standard but:

- align terms and language with IFRS Standards
- update paragraph cross-references

YES

Tailor the disclosure requirements in IFRS Standards by applying the principles used to develop the disclosure requirements in the IFRS for SMEs Standard

BACKGROUND - EFRAG OUTREACH ACTIVITIES

EFRAG KEY OUTREACH ACTIVITIES

- **Survey with National Standard Setters**: EFRAG reached out to European National Standard Setters to better understand the costs and benefits of the IASB’s proposals and whether there are any incompatibilities with European Legislation
- **Surveys with preparers**: 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
- **Briefing**: the EFRAG Secretariat issued a briefing focused on the scope of the IASB's project from an EU perspective
- **Compatibility study**: the EFRAG Secretariat undertook a high-level analysis of whether the disclosures in IASB’s ED that are compatible with the Accounting Directive 2013/34/EU (‘AD’) and whether there are any disclosures in the AD that are missing or insufficient in the IASB's ED

BACKGROUND - EFRAG COMMENT LETTER

KEY COMMENTS IN EFRAG COMMENT LETTER

- Welcomed the IASB's efforts in developing reduced disclosure requirements for subsidiaries without public accountability and agreed with the proposed objective
- EFRAG highlighted that the term 'available for public use' is already used in IFRS Accounting Standards but suggested that additional clarification is provided as it is a fundamental term to the scope of the project
- Recognised support from its constituents to permit eligible subsidiaries to apply IFRS Standards with reduced disclosure requirements and highlighted the feedback from European constituents suggesting the IASB to widen the scope
- However, noted there was no clear consensus on whether and to what extent the scope should be widened. Thus, EFRAG suggested that the IASB continues with the current scope of the project but in parallel assesses the possibility of scope extension
- EFRAG identified some additional disclosures that are relevant for users
- EFRAG supported the proposed structure of the ED and highlighted the importance of having a stand-alone reduced-disclosure IFRS Standard. However, EFRAG also recognised support for incorporating all disclosure requirements in the main body of the ED instead of providing by reference in the footnotes and Appendix A