EFRAG FR TEG-CFSS
15 March 2022
Paper 06-03
EFRAG Secretariat: SWPA team

SUBSIDIARIES WITHOUT PUBLIC ACCOUNTABILITY: DISCLOSURES

EFRAG TEG-CFSS meeting – Expected costs and benefits

15 March 2023

DISCLAIMER

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IASB - EXPECTED COSTS AND BENEFITS

COSTS AND BENEFITS IDENTIFIED IN THE ED (BASIS FOR CONCLUSIONS)

- A **subsidiary that applies a national GAAP** and elects to apply the draft Standard would incur first-time implementation costs (including the cost as a first-time adopter of IFRS Standards). However, it would reduce the subsidiary's ongoing costs as the subsidiary would no longer be required to maintain an additional accounting record for consolidation purposes only (single set of accounting policies)

- A **subsidiary that applies IFRS Standards** and elects to apply the draft Standard would benefit from significantly fewer disclosure requirements. Such a subsidiary could incur first-time implementation costs (identifying the disclosures to provide), however, these costs would be outweighed by the expected ongoing benefits of the subsidiary not having to produce all the required disclosures under IFRS Accounting Standards and by the reduction of the ongoing costs (fewer disclosures would be provided in the financial statements subject to audit, so the audit effort should be reduced)

- The IASB developed the disclosure requirements in a manner that should not result in the loss of useful information for the users of the subsidiary's financial statements

IASB - EXPECTED COSTS AND BENEFITS

FEEDBACK RECEIVED BY THE IASB ON ITS ED

Benefits - respondents to the IASB's ED stated that applying the Standard will:

- reduce the risk of errors occurring in the IFRS consolidation package
- improve the overall quality of consolidated financial statements because IFRS Accounting Standards used throughout the group (better knowledge of IFRS Accounting Standards by subsidiaries)

The benefits of applying the Standard depend on if the subsidiary

- is already applying IFRS Accounting Standards, and
- is material to the group and has to provide additional disclosures for consolidation purposes

Costs - respondents to the IASB's ED stated that:

- initial implementation costs vary depending on whether transitioning from IFRS Accounting Standards or local GAAP
- ongoing costs depend on the interaction with local regulations (e.g. in jurisdictions where the local GAAP is aligned with tax laws and legislation)

IASB - EXPECTED COSTS AND BENEFITS

IASB STAFF ASSESSMENT ON EXPECTED COSTS AND BENEFITS

- The potential benefits and costs of applying the Standard depend on subsidiaries' circumstances
- Applying the Standard is optional - subsidiaries will opt to apply the Standard depending on their own circumstances – therefore, it will only be applied when benefits outweigh the costs

EFRAG - EXPECTED COSTS AND BENEFITS

EFRAG SURVEY TO PREPARERS

During the IASB's consultation period on its ED, EFRAG launched a survey focused on preparers. EFRAG received 14 completed surveys. The overall key messages were:

- Most respondents expected significant ongoing cost-savings at both subsidiary and parent level, particularly in terms of a reduction of costs with employees, reduction in auditing costs and elimination of the need to maintain additional accounting records;
- Only one parent entity and one subsidiary considered that no significant cost-savings were expected (e.g., still having to produce the detailed IFRS disclosures for the group reporting package);
- Many subsidiaries and parent entities highlighted the benefit of preparing financial statements under IFRS Standards, as users of financial statements prefer the use of IFRS Standards;
- For subsidiaries that are currently applying full IFRS Standards, the initial implementation costs were assessed to be insignificant;

EFRAG - EXPECTED COSTS AND BENEFITS

EFRAG SURVEY TO PREPARERS

- For subsidiaries that would apply the reduced disclosure IFRS Standard and adopt IFRS Standards for the first time (e.g., were previously applying local GAAP), the majority of the respondents identified one or more areas where significant implementation costs were expected (the questionnaire addressed implementation costs in general, without splitting costs for recognition and measurement and disclosures);
- Most participants of the survey considered that the current scope of the project should be broader but had mixed views on which entities should then be included. Nonetheless, many parent entities agreed that the scope should at least include associates, joint ventures and joint operations without public accountability; and
- Many parent entities and subsidiaries considered the proposed Standard to be very helpful. However, there was mixed feedback about a potential application of the proposed Standard. Several respondents highlighted in their comments that applicability depends on whether IFRS Standards were allowed for annual accounts in local jurisdictions, reflecting the different use of the options in Regulation (EC) No 1606/2002.

EFRAG - EXPECTED COSTS AND BENEFITS

EFRAG BRIEFING: EU PERSPECTIVE ON THE IASB'S PROPOSED SCOPE

In the EU Member States that use the options included in Regulation No. 1606/202 (Article 5 of Regulation (EC) No 1606/2002), companies may have the option or be required to use IFRS requirements in the annual accounts and/or consolidated financial statements of companies that are non-publicly traded in regulated markets.

In such jurisdictions:

- if a company already applies IFRS Standards to its financial statements and is under the scope of the Draft Standard, the company would benefit from significantly fewer disclosure requirements
- if a company currently applies local GAAP to its financial statements and is under the scope of the Draft Standard, the company may decide to prepare financial statements under IFRS Accounting Standards. Such company would:
    - incur first-time implementation costs (e.g. due to different recognition and measurement requirements) and

EFRAG - EXPECTED COSTS AND BENEFITS

EFRAG BRIEFING: EU PERSPECTIVE ON THE IASB’S PROPOSED SCOPE

- the company may have to provide additional disclosures when compared with local GAAP
- have to consider all future new and amended IFRS Standards when preparing its financial statements
- the costs would have to be weighed against the benefits of applying the same accounting policies as the parent (i.e. benefits of the subsidiary not being required to maintain additional accounting records).

However, in some jurisdictions, companies are permitted to use IFRS Standards but are still required to prepare annual accounts under local GAAP (for tax purposes, distribution of dividends or other legal reasons) or exempted from preparing (sub)consolidated financial statements (e.g. for subgroups that have an IFRS intermediate or ultimate parent company that already prepares consolidated financial statements). In such cases, the benefits of applying the draft Standard would be limited.

EFRAG - EXPECTED COSTS AND BENEFITS

EFRAG FEEDBACK RECEIVED ON ITS DCL

- Many respondents considered that the ED would save costs for preparers without a significant impact on the usefulness of financial statements to the users. This was often used as an argument to expand the scope of the project
- One respondent detailed that eligible entities would benefit through applying the same recognition and measurements requirements as IFRS Accounting Standards while preparing reduced disclosures. These subsidiaries would continue to prepare their reporting packages for consolidation purposes in accordance with IFRS Accounting Standards. However, for many of these subsidiaries, the disclosures included for group reporting purposes use higher materiality thresholds. Should these entities apply the ED for their separate financial statements, several notes would not be required either for separate reporting due to the reduced disclosure regime or for group reporting due to immateriality
- One national standard setter added that it 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
- One respondent expected a decrease on the audit fees. Notwithstanding, this respondent considered 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 - EXPECTED COSTS AND BENEFITS

EFRAG FEEDBACK RECEIVED ON ITS DCL

- One respondent considered that the ED did not provide 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. It is recommended to request the IASB to prepare a more in-depth impact assessment including a cost-benefit analysis.

QUESTIONS

QUESTIONS FOR EFRAG FR TEG-CFSS

- **What are your views on potential effects (costs and benefits) of applying the Standard as proposed in the Exposure Draft? (ASAF question)**
- **Do you agree that the benefits of applying the Standard will outweigh the costs of applying it? (ASAF question)**

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THANK YOU

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