

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

Subsidiaries without Public Accountability Cover Note

Objective

- 1 The objective of the session is to provide EFRAG FR TEG members with an update on the IASB's latest tentative decisions and receive comments on the IASB's tentative decisions and EFRAG Secretariat analysis.
- 2 The latest decisions relate to:
 - (a) Sweep issues—updating the language of disclosure requirements (IASB [AP31](#), October 2023)
 - (b) Project plan for the Catch-up Exposure Draft (IASB [AP32](#), November 2023)
 - (c) Sweep issues—approach to updating the Exposure Draft for the disclosure requirements in the PFS Standard - upcoming IFRS 18 (IASB [AP31](#), December 2023)
- 3 To inform about the feedback received on the intended disclosure requirements from the EFRAG User Panel (specifically on the requirements not intended to be required in the upcoming IFRS 19 but included in the European Accounting Directive or requested to be required in the EFRAG FCL; for further details please see the [FR TEG October](#) paper).

Background

Exposure Draft Consultation

- 4 On 26 July 2021 the IASB published [the ED Subsidiaries without Public Accountability](#) with the objective of developing a reduced-disclosure IFRS Accounting Standard that would apply on a voluntary basis to subsidiaries without public accountability. The description of public accountability, contained in paragraphs 7 and 8 of the ED, is from paragraphs 1.3 and 1.4 of the IFRS for SMEs Standard.
- 5 EFRAG published its [Draft Comment Letter \(DCL\)](#) on 30 September 2021 which was open for comments until 26 January 2022. In its DCL, EFRAG welcomed the ED and the IASB's efforts to reduce disclosure requirements for subsidiaries without public accountability. EFRAG also cautiously agreed with the IASB's proposed scope but recognised that there was also support for the alternative view expressed by the IASB board member Françoise Flores in the Basis for Conclusions of the ED.
- 6 EFRAG then embarked on an extensive programme of outreach events and stakeholder meetings, in partnership with various organisations. EFRAG also conducted research activities that led to the publication of two briefings focused on the applicability of the IASB's ED in the European Union.

- (a) [Subsidiaries without Public Accountability: Disclosures. Who would be able to apply it in the EU?](#) focused on the scope of the IASB's project from an EU perspective; and
 - (b) [EFRAG Secretariat study on compatibility of the EU Accounting Directive with the IASB's Exposure Draft](#) included a two-step comparison of disclosure requirements in the ED and the EU Accounting Directive.
- 7 In general, participants in outreach events and respondents to EFRAG DCL welcomed the IASB's ED and acknowledged that the IASB's efforts would ease financial reporting for eligible subsidiaries, while meeting the reasonable needs of the users of financial statements. When referring to the scope, European constituents expressed mixed views, in particular on whether and to what extent the scope should be widened. European constituents also raised questions and some concerns on the interaction of the IASB's proposals with EU accounting law.
- 8 After consulting its constituents, EFRAG published its [Final Comment Letter \(FCL\)](#) on 25 February 2022, where it reiterated its initial support for the IASB's project and highlighted the requests from many constituents to widen its scope. However, as there was no clear consensus whether and to what extent the scope should be extended, EFRAG suggested that the IASB continues with the current scope of the project, but in parallel assesses the possibility of a scope extension. In addition, EFRAG proposed that the IASB considers clarifying the concept of holding assets in a fiduciary capacity before issuing a final standard.
- 9 Alongside the concerns expressed about the term 'fiduciary capacity', EFRAG expressed concerns that the IASB uses the concept 'public accountability' when defining the scope of this project. This is because its meaning is not often entirely clear for stakeholders (these concepts are not currently being used in IFRS Accounting Standards available for use in the EU), and it could be in conflict with existing legal terms used in different EU Member States. For example, National Standard Setters have expressed concerns that the notion of public accountability is different from the notion of Public Interest Entities, a similar term used in the European Union accounting law. Therefore, the IASB's proposals in this project are likely to also put pressure on the definition of 'public accountability'. Considering this, EFRAG would welcome further application guidance in this area.
- 10 On 14 April 2022, EFRAG issued a [Feedback Statement](#), which summarised the main comments received by EFRAG on its DCL to the IASB ED and explained how those comments were considered in EFRAG's FCL.
- 11 Also in April 2022, the IASB started to discuss the feedback received from comment letters and outreach events. In general, most respondents agreed with the objective of the draft Standard. However, respondents had mixed views on the proposed scope of the draft Standard. Although some respondents agreed with the proposed scope of the draft Standard, many respondents suggested a wider scope. Nonetheless, 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, for example, after the draft Standard has been effective for a period of time.

Redeliberation Phase

- 12 For more details for the TEG meetings discussions, please see below in Appendix 1.

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13 The key topics discussed by the IASB until now are summarised in the table below. Those in light grey have already been discussed by EFRAG FR TEG.

Objective IASB October 2022	<ul style="list-style-type: none"> The IASB discussed the proposed objective of the draft Standard.
Scope of the project IASB September 2022 and IASB November 2022	<ul style="list-style-type: none"> The IASB discussed the feedback received on the proposed scope of the draft Standard and discussed whether it should confirm the proposed scope, including the proposal that the parent’s consolidated financial statements are ‘available for public use’.
Structure of the draft standard IASB October 2022	<ul style="list-style-type: none"> The IASB discussed the structure of the draft Standard and whether it should modify, retain or omit Appendix A and footnotes related to disclosure requirements that remain applicable proposed in the draft Standard.
Approach to developing the proposed disclosure requirements IASB October 2022	<ul style="list-style-type: none"> The IASB discussed the feedback on the approach to developing the proposed disclosure requirements of the draft Standard and discussed whether it should modify it to ensure that the language used in the disclosure requirements are the same as IFRS Accounting Standards.
Addressing comments on proposed disclosure requirements IASB October 2022	<ul style="list-style-type: none"> The IASB discussed the process and how the IASB staff should analyse the comments received on the proposed disclosure requirements in the draft Standard.
Others IASB December 2022	<ul style="list-style-type: none"> The IASB discussed other topics such as IFRS Accounting Standards without reduced disclosure requirements, proposed reduced disclosure requirements in IAS 34 and a proposed statement of compliance
Maintenance of the Standard: IASB January 2023	<ul style="list-style-type: none"> The IASB discussed when to update the Standard for new disclosure requirements or amendments to disclosure requirements arising from new IFRS Accounting Standards or amendments to IFRS Accounting Standards.
Transition matters—interactions with IFRS 1 and changes in accounting policies IASB January 2023	<ul style="list-style-type: none"> The IASB discussed the interaction between IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> and the Standard and whether electing or revoking an election to apply the draft Standard requires an eligible subsidiary to apply the requirements on changes in accounting policies in IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>
Relationship of the new IFRS Accounting Standard with the IFRS for SMEs Accounting Standard IASB March 2023	<ul style="list-style-type: none"> The IASB considered the feedback received on the interaction between the reduced disclosure Standard (based on IFRS for SMEs and IFRS Accounting Standards) and the IFRS for SMEs. In addition, the IASB discussed the way forward on the relationship of the new reduced disclosure IFRS Accounting Standard with the IFRS for SMEs. The discussion focused also on whether there should be a separate assessment of the costs and benefits for subsidiaries (applying the reduced disclosure Standard) and for SMEs (applying the IFRS for SMEs).

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<p>Updating the language of the disclosure requirements IASB April 2023</p>	<ul style="list-style-type: none"> The IASB discussed the language and structure of the disclosure requirements and whether they should be the same as in IFRS Accounting Standards. IFRS Accounting Standard
<p>Proposed disclosure requirements IASB April 2023, IASB May 2023 and IASB June 2023</p>	<ul style="list-style-type: none"> The IASB considered the feedback received on the proposed disclosure requirements and discussed whether it was necessary to revise any of the proposed disclosure requirements in the ED.
<p>Disclosure requirements about transition in other IFRS Accounting Standards IASB May 2023</p>	<ul style="list-style-type: none"> The IASB discussed whether the disclosure requirements in a new or amended IFRS Accounting Standard, about the entity's transition to that Standard, would remain applicable to an eligible subsidiary that applies the draft Standard.
<p>Paragraph 16 of the draft Standard IASB May 2023</p>	<ul style="list-style-type: none"> The IASB discussed whether to provide guidance on or update paragraph 16 of the draft Standard (stating that an entity need not disclose immaterial information and need to consider whether to disclose additional information) and whether to include an overall disclosure objective.
<p>New disclosure requirements in IFRS Accounting Standards IASB May 2023</p>	<ul style="list-style-type: none"> The IASB discussed whether disclosure requirements in IFRS Accounting Standards that have been issued since development of the draft Standard apply to eligible subsidiaries applying the new Standard.
<p>Effective date and transition IASB July 2023</p>	<ul style="list-style-type: none"> The IASB discussed the effective date and transition provisions for the new Standard. The IASB also discussed the interaction between the new Standard and the Standard being developed based on the ED <i>General Presentation and Disclosures (Primary Financial Statements)</i>.
<p>Due process IASB July 2023</p>	<ul style="list-style-type: none"> The IASB discussed due process steps for developing the new Standard and whether to start the balloting process.
<p>Approach to maintenance IASB September 2023</p>	<ul style="list-style-type: none"> The IASB discussed its approach to maintenance of the new Standard.
<p>Sweep issues—updating the language of disclosure requirements IASB October 2023</p>	<ul style="list-style-type: none"> The IASB discussed the language and structure of the disclosure requirements concentrating on when it is appropriate to amend or not the disclosure requirements in order to match them with the full IFRS Accounting Standards and on deleting the disclosure requirements without an equivalent on IFRS full Accounting Standard.
<p>Project plan for the Catch-up Exposure Draft IASB November 2023</p>	<ul style="list-style-type: none"> The IASB staff give an update of the contents of the Catch-up ED for disclosure requirements in new or amended standards after 28 February 2021 that will be discussed by the IASB in the first half of 2024.
<p>Sweep issues—approach to updating the Exposure Draft for the disclosure requirements in the PFS Standard IASB December 2023</p>	<ul style="list-style-type: none"> The IASB staff recommended a general approach on how to update the Standard for including the disclosure requirements of the <i>Presentation and Disclosure in Financial Statements</i> (PFS Standard).

Feedback from the EFRAG User Panel on IASB redeliberations

- 14 EFRAG FR TEG members requested to consult EFRAG User Panel on the disclosure requirements tentatively decided by the IASB. EFRAG FR TEG members requested to address those requirements that are required according to the European Accounting Directive or which were proposed by EFRAG – but not intended to be required – are useful and necessary information. The EFRAG User Panel feedback is provided in paragraphs 15-19 of this paper.
- 15 EFRAG User Panel members provided their views on whether any of the disclosures, either those required by the EU Accounting Directive, or those requested by EFRAG in its Final Comment Letter, that have not been incorporated in the new Standard, are fundamental for subsidiaries without public accountability.
- 16 In general, members considered that the new IFRS Accounting Standard was likely to increase the use of IFRS (currently it is too costly to apply) and, in balance, would be an improvement to the information non-IFRS subsidiaries currently provide based on local GAAP. However, critical views were expressed for larger subsidiaries. For large entities, members considered that the disclosures required by the new Standard would potentially be insufficient to meet users' needs (currently there is no size threshold in the definition of 'public accountability').
- 17 Overall, the disclosures included in the Accounting Directive, and those requested by EFRAG, were deemed useful for users. On these disclosures, the following detailed points were raised:
 - (a) Most members underlined the importance of disclosures related to segment information in the consolidated financial statements. This information would often mitigate the need to analyse the financial statements of subsidiaries. However, this was not always the case, as it depended on how an entity presented its segment information. Similarly, most members underlined the importance of disclosures related to segment reporting for subsidiaries that are also a parent. However, additional issues on segment information would arise at subsidiary level. More specifically, segment information does not always mitigate the need of analysing the financial statements of the subsidiaries of the intermediate parent. In addition, in accordance with IAS 33, these disclosures are not required for subsidiaries without public accountability (i.e. non-listed entities) and often segment information cannot be derived from the consolidated financial statements (as segments, CGUs, and materiality levels may be significantly different across subsidiaries and parent entities). Therefore, information about the group and significant investments for subsidiaries that are also parents can be fundamental;
 - (b) Disclosures on business combinations, especially on the primary reasons for business combinations and any gains or losses recognised as a result of remeasuring in fair value the equity interest in the acquiree held by the acquirer prior to the business combination, for business combinations achieved in stages, that EFRAG had requested, were also seen as very material;
 - (c) Disclosures on the nature of expenses in a single place, including depreciation and amortisation, were seen as fundamental from a credit analyst perspective, as the provision of loans is often linked to an entity's EBIT; and

- (d) Disclosures on joint arrangements were seen as material for credit analysts.
- 18 Members acknowledged the IASB's approach to identify credit analysts as the primary users of financial statements of subsidiaries without public accountability. Notwithstanding, the information to be disclosed might be relevant for equity analysts of the subsidiary or the parent entity itself. The following points were noted:
- (a) The parent company in theory holds the necessary information about its subsidiaries. In practice, this often does not happen in all detail, mainly due to materiality differences;
 - (b) Parent shareholders can mandate what disclosure subsidiaries send the parent entity; and
 - (c) One member noted that liquidity/solvency risk or the fact that subsidiaries had declared bankruptcy could only be found in their respective financial statements. This information is important for the primary users of the parent entity's financial statements too.
- 19 The argument frequently presented that missing information due to reduced disclosures can always be found into the Parent company consolidated financial statements prepared using full IFRS is not credible, mainly because of the materiality differences at Parent level in comparison to subsidiary level. Therefore, the need for the additional disclosures requested by EFRAG (but planned to be omitted from the upcoming New Standard) was emphasised overall by the members. Nevertheless, on balance, members do see the expected IFRS 19 as a step in the right direction. However, the usefulness for users would be better with the disclosures requested in the FCL of EFRAG.

Questions for EFRAG FR TEG

- 20 Does EFRAG FR TEG have any comments on the users feedback?

Next steps

- 21 The IASB is planning to issue a new reduced disclosures IFRS Accounting Standard in the first half of 2024 with an effective date of 1 January 2027.

Agenda Papers

- 22 In addition to this cover note, the agenda paper 07-02 – *Sweep issues* - is provided for this session. The issues paper includes specific questions to the issues presented.

Appendix 1 – Redeliberation Phase – EFRAG FR meetings

- 1 In July 2022, the IASB discussed the Interaction between local regulations and the proposed IFRS Accounting Standard at the Accounting Standards Advisory Forum (ASAF) meeting. In preparation for that meeting, the EFRAG FR TEG-CFSS members discussed this project on 28 June 2022 (summary of feedback received can be found [here](#)).
- 2 On [14 September 2022](#), the EFRAG FR TEG-CFSS members received an update, discussed the use of the concept ‘available for public use’, the proposed disclosure requirements and the structure of the draft IFRS Accounting Standard.
- 3 On [18 October 2022](#), EFRAG FRB considered whether EFRAG should comment on the proposed clarifications to the definition of ‘public accountability’ included in Question 1 of the IASB Exposure Draft Third edition of the IFRS for SMEs Accounting Standard. After discussing this issue, EFRAG FRB members decided not to comment on the Question 1 of the IASB ED as there was no consensus.
- 4 On [15 March 2023](#), the EFRAG FR TEG and EFRAG CFSS members received an update on the IASB’s latest tentative decisions and discussed the expected benefits and costs of the IASB’s proposals for stakeholders in their jurisdiction.
- 5 In general, EFRAG FR TEG and EFRAG CFSS members supported the direction of the redeliberation and recognised that this project would simplify and reduce the cost of financial reporting for eligible subsidiaries and their parents, even in jurisdictions that currently do not allow or require the use of IFRS Accounting Standards in the annual accounts (e.g., for international groups), while still providing relevant information to users of financial statements. One CFSS member reported that in his jurisdiction the applicability of IFRS for individual financial statements is currently being investigated and discussed.
- 6 On [30 March 2023](#), EFRAG FRB received an update on the IASB’s latest decisions and generally agreed with the IASB’s proposals. Some FRB members questioned the scope exclusion for the insurance industry. In addition, FRB highlighted the need to consider the interaction of the IASB’s proposals with European legislation.
- 7 On [19 October 2023](#) EFRAG FR TEG received an update on the IASB’s latest tentative decisions and generally agree with the IASB’s proposals although some of the disclosures required by EFRAG were still missing. EFRAG FR TEG provided comments on the proposed disclosure requirements, on paragraph 16 of the ED regarding materiality, on the effective date, transition, maintenance, relationship with the PFS Standard and on the scope. In the discussion, some IASB members and staff also participated.