Subsidiaries without Public Accountability – Project Update

Issues Paper

Objective

1 The objective of this paper is to inform and collect views from EFRAG FR TEG members on the IASB's latest discussions and tentative decisions that were made in January 2024 (IASB AP31) on the sweep issues related to updating the language of disclosure requirements that were proposed in the Exposure Draft.

2 Please note that the sweep issues on Updating the language of disclosure requirements were discussed during the FR TEG meeting in December. This issues paper covers additional sweep issues identified by the IASB staff as a result of finalisation of the drafting process.

Structure of the document

3 This issues paper includes a summary of the IASB's initial proposals, EFRAG's position in its final comment letter, the latest IASB's discussions and decisions and the EFRAG Secretariat analysis.

4 The list of IASB sweep issues related to updating the language that were already discussed in previous EFRAG FR TEG meeting on 20 December 2023 (and covering all IASB discussions and tentative decisions up to that date) is provided in **Appendix A**.

Background of the project

5 In July 2021 the IASB published the ED *Subsidiaries without Public Accountability* with the objective of developing a reduced-disclosure IFRS Standard that would apply on a voluntary basis to subsidiaries without public accountability.

6 In February 2022, after extensive consultation with constituents, EFRAG published its final comment letter ('FCL').

7 From April 2022 until June 2023, the IASB discussed the feedback and redeliberated the proposals in the ED to develop a new IFRS Accounting Standard. At that stage, the IASB already provided the IASB staff with the permission to start the balloting process (IASB meeting in July 2023). The IASB discussed sweep issues in its October 2023 (IASB AP31) and December 2023 meetings (IASB AP31).

8 The EFRAG Secretariat has been providing updates to EFRAG FR TEG, with the last one being in December 2023. The *Updating Subsidiaries without Public Accountability: Disclosures* topic represents a separate IASB maintenance project and is addressed in separate sessions going forward.

9 The IASB is expected to publish the new Standard *Subsidiaries without Public Accountability: Disclosures* in April 2024. Additional educational materials are also expected to further complement the already existing supporting materials published on IASB's project page.

Sweep issues - Updating the language of disclosure requirements

Background to the Discussion

IASB proposal in the ED

10 The disclosure requirements proposed in the ED were based on disclosure requirements in the IFRS for SMEs Standard and IFRS Accounting Standards. In the ED, the IASB proposed minor tailoring to the disclosure requirements that came from the IFRS for SMEs Standard.

EFRAG Final Comment Letter

11 In its FCL EFRAG considered that an alternative approach would be to develop reduced disclosure requirements, starting with the disclosure requirements in IFRS Standards and then tailoring these disclosure requirements to the specific information needs of the users of financial statements of non-publicly accountable subsidiaries. EFRAG also highlighted the risk of not considering the latest developments in IFRS Accounting Standards, when there were no recognition and measurement differences (including the risk of not using new terminology).

IASB previous discussions and tentative decisions related to updating the language

12 In the October 2022 IASB meeting, after considering feedback from stakeholders considering that the language and structure of the disclosure requirements should be the same as in full IFRS Accounting Standards, the IASB tentatively decided to modify its approach to ensure that the language used in the disclosure requirements is the same as in full IFRS Accounting Standards ('the modified approach').

13 In March 2023, the IASB discussed the challenges of updating the language (as tentatively decided in October 2022) and agreed on the approach to be followed by the IASB staff.

14 In the April 2023 IASB meeting, the IASB staff proposed to use in the disclosure requirements the same language used in full IFRS Accounting Standards and to only adjust the language to make the disclosure requirements more consistent and understandable (please refer to AP31B for more details). Therefore, the IASB tentatively decided not to include in the prospective Standard disclosure objectives or guidance on how to apply the disclosure requirements.

15 In the October 2023 meeting, the IASB has discussed the challenges from applying the "modified approach" in certain cases and has made tentative decisions related to changes to disclosure requirements in the ED, where judgment had to be applied. The tentative decisions related to these changes are summarised in Appendix A.

IASB discussions and tentative decisions (January 2024) – sweep issues related to updating the language

16 In the January 2024 meeting, the IASB has discussed more judgemental changes to the disclosure requirements in the ED that were identified by the IASB staff in drafting, in addition to these that have been already discussed in October 2023.

Topic	Exposure Draft paragraph	IASB tentative decisions
IFRS 15	96	Amend the wording in this paragraph to match the language in paragraph 120 of IFRS 15.
IFRS 16	100(d)	Adding a requirement to disclose a maturity analysis of lease liabilities separately from other financial liabilities according to the requirement based on paragraph 39 of IFRS 7.
IFRS 16	100 (e)	Delete the proposed requirement to disclose "*a general description of the lessee's significant leasing arrangements*". Add a requirement based on paragraph 59 of IFRS 16, to require the disclosure of qualitative or quantitative information about the characteristic listed in subparagraphs (a)-(d).
IFRS 16	106 (d)	Delete the proposed requirement to disclose "*the loss allowance for uncollectable lease payments receivable*" as not required in IFRS 16.
IFRS 16	106 (f)	Delete the proposed requirement to disclose "*a general description of the lessor's significant leasing arrangements*". Add a requirement based on paragraph 92 of IFRS 16, amending the lead sentence to require the disclosure of qualitative or quantitative information about the features listed in subparagraphs (a) and (b).
IAS 12	147 (c)	Amend the requirement in paragraph 147(c) of the Exposure Draft to match the requirement in paragraph 81(c) of IAS 12.
IAS 36	191	Amend the requirement in paragraph 191 of the Exposure Draft to match the requirement in paragraph 127 of IAS 36.

17 <u>The IASB tentatively decided to:</u>

(a) to withdraw the proposed requirements in paragraph 106(d) of the Exposure Draft;

(b) to modify the proposed requirements in paragraphs 96, 100(e), 106(f), 147(c) and 191 of the Exposure Draft to align their language with that used in the disclosure requirements in the IFRS Accounting Standards of which these proposed requirements are reduced versions; and

(c) to add a disclosure requirement based on paragraph 58 of IFRS 16 Leases.

EFRAG Secretariat analysis

18 The EFRAG Secretariat continues to support the IASB's decision in October 2022 to align the language and structure of the reduced disclosure requirement in the new Standard with that in full IFRS Accounting Standards. The decision is also consistent with EFRAG's position in its FCL.

19 In addition, the EFRAG Secretariat welcomes the January 2024 IASB discussion of sweep issues related to changes to disclosure requirements. As previously highlighted by the EFRAG Secretariat, changes to the ED proposals should be discussed publicly by the IASB and made transparent. It is important to ensure that stakeholders are aware of the changes to the ED proposals before the Standard is published, which will also ensure a smooth endorsement process.

20 In the December EFRAG FR TEG meeting, members have expressed concerns related to changing the disclosure requirements in the ED as a consequence of aligning the language with the full IFRS Accounting Standards. Members were concerned that these changes would result in increased complexity and burden for subsidiaries. Examples of such changes are highlighted in blue in Appendix A (paragraphs 36(e), 36(g) and 133 of the ED).

21 Similarly, the EFRAG Secretariat would like to draw the attention to the following changes proposed by the IASB:

(a) **Paragraph 96 of the ED (IFRS 15)**: The changes proposed by the IASB to the IFRS 15 *Revenue from Contracts with Customers* disclosure requirements, increase the disclosure requirements in comparison to the ED (specifically paragraph 120 (b-i) and 120 (b-ii)) and therefore costs may exceed benefits. On the other hand, it may be reasonably expected that this information will be prepared by a subsidiary for the purposes of its parent reporting.

(b) **Paragraph 100 of the ED (IFRS 16):** As it relates to the proposed changed to the disclosure requirements on IFRS 16 Leases, the EFRAG Secretariat would like to highlight the following items:

(i) On paragraph 100(d) of the ED, it will be helpful to confirm that the proposed amendment does not impact the exemption of the short-term leases or leases for which the underlying asset is of low value as provided in the body of the paragraph 100;

(ii) On paragraph 100(e), it seems that the proposed amendment increases the disclosure requirements compared to the ED, which may result in an extra cost to the preparers. More specifically, it seems that the requirements included in paragraph 59 (b) of IFRS 16 related to (iii) residual value guarantees (as described in paragraph B51) and (iv) leases not yet commenced to which the lessee is committed represent additional disclosure requirements compared to the ED. In addition, it is unclear if this requirement will only apply to "significant leasing arrangements" or to all, as the phrase "general description of the lessee's significant leasing arrangements" will be deleted.

(iii) Similar observation applies to the paragraph 106(f) where the proposal seems to add additional disclosure requirements compared to the ED. More specifically, paragraph 92(b) of IFRS 16 seems to increase the disclosure requirements. In addition, it is unclear if this requirement will only apply to "significant leasing arrangements" or to all, as the phrase "general description of the lessee's significant leasing arrangements" will be deleted.

(c) **Paragraph 191 of the ED (IAS 36):** The EFRAG Secretariat also notes that in regard to the IAS 36 change, if the paragraph 191 of the ED (list of assets) is aligned with the paragraph 127 of IAS 36 (definition of the class of assets), the paragraph 190 of the ED should no further refer to the list of assets included in the paragraph 191.

22 Finally, the EFRAG Secretariat would like to highlight the importance of discussing a complete list of the changes to disclosure requirements at a public meeting before the publication of the Standard in Q2 2024, for which the IASB staff had to apply judgement for applying the modified approach.

Questions for EFRAG FR TEG

23 Does EFRAG FR TEG have any comments on the IASB approach to updating the language of the disclosure requirements?

Appendix A

Table of October 2023 tentative decision on updating the language

Section	Prior requirement according to the ED	IASB tentative decisions
IFRS 2	32 For ***equity-settled share-based payment transactions***, an entity shall disclose information about how it measured the ***fair value*** of goods or services received or the fair value of the equity instruments granted. If the entity used a valuation method, the entity shall disclose the method and the entity's reason for choosing it. 33 For ***cash-settled share-based payment transactions***, an entity shall disclose information about how it measured the ***liability***.	Amend paragraph 32 of the ED to match the requirement in paragraph 46 of IFRS 2. Delete paragraph 33 of the ED. The staff recommend deleting the specific requirement to disclose how the liability in a cash-settled share-based payment is measured.
IFRS 3	36 (e) For each ***business combination*** during the reporting period, the ***acquirer*** shall disclose: (e) the acquisition-date fair value of the total consideration transferred and a description of the components of that consideration (such as cash, equity instruments and debt instruments);	Retain the "description" disclosure of the components of the total consideration, contrasts with paragraph B64(f) of IFRS 3.
IFRS 3	36 (g) For each ***business combination*** during the reporting period, the ***acquirer*** shall disclose: (g) the amounts recognised at the acquisition date for each class of the acquiree's assets and liabilities;	Retain the disclosure of the acquisition-date FV of "each class" of assets acquired and liabilities assumed, contrasts with paragraph B64(i) of IFRS 3
IFRS 3	38 For each reporting period after the acquisition date until the entity collects, sells or otherwise loses the right to a contingent consideration asset, or until the entity settles a contingent consideration liability or the liability is cancelled or expires, the entity shall disclose for each material business combination and in aggregate for individually immaterial business combinations that are material collectively: (a) any changes in the recognised amounts, including any differences arising upon settlement; and (b) the valuation techniques and key model inputs used to measure contingent consideration.	Amend paragraph 38 of the ED by removing the requirement to disclose information on business combination to be consistent with the reduced disclosure requirement in paragraph 37 of the ED.
IFRS 7	53 For ***loans payable*** recognised at the reporting date for which there is a breach of terms or a default of principal, interest, sinking fund or redemption terms that have not been remedied by the reporting date, an entity shall disclose: (a) details of that breach or default; (b) the carrying amount of the related loans payable at the reporting date; and (c) whether the breach or default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.	Amend paragraph 53 to match the text in paragraphs 18 and 19 of IFRS 7 regarding defaults and breaches.

IFRS 7	54 (c) An entity shall disclose separately: (c) the amount of any impairment loss for each class of financial asset; And	Delete the proposed requirement to disclose "the amount of any impairment loss for each class of financial asset", not required by paragraph 20 of IFRS 7.
IFRS 7	56 (b) An entity shall disclose separately for each risk category of risk exposures that it decides to hedge and for which hedge accounting is applied: (b) the nature of the risks being hedged, including a description of the ***hedged item***;	Delete the proposed requirement to disclose "the nature of the risks being hedged including a description of the hedged item", not present in paragraph 22B of IFRS 7.
IFRS 12	69 (d) When an entity has interests in subsidiaries, it shall disclose: (d) the nature and extent of any significant restrictions (for example, resulting from borrowing arrangements or regulatory requirements) on the ability of subsidiaries to transfer funds to the parent in the form of cash ***dividends*** or to repay loans.	Replace the description and examples of significant restrictions to be disclosed, with the more generic description and examples included in paragraph 13(a) of IFRS 12.
IFRS 12	76 For investments in joint ventures and, separately, for investments in associates, an entity shall disclose: (a) whether investments in joint ventures and investments in associates are measured using the ***equity method*** or at fair value; (b) the carrying amount of investments in joint ventures and investments in associates, showing separately investments measured using the equity method and investments measured at fair value; and (c) the fair value of its investment in a joint venture or associate if a market price for the investment is quoted and the entity accounts for the joint venture or associate using the equity method. 77 For investments in joint ventures accounted for using the equity method and for associates accounted for using the equity method, an investor shall disclose separately its share of profit or loss and its share of any ***discontinued operations***.	Amend the proposed requirement in paragraph 76 of the ED to use the same language as paragraph 21(b)(i) and 21(b)(iii) of IFRS 12. Amend the proposed requirement in paragraph 77 of the ED to require the disclosure of the carrying amount of investments as in paragraphs B14 and B16 of IFRS 12.
IFRS 15	92 An entity shall disclose: (a) the opening and closing balances of receivables, contract assets and ***contract liabilities*** from contracts with customers, if not otherwise separately presented or disclosed; (b) revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period; and (c) revenue recognised in the reporting period from ***performance obligations*** satisfied or partially satisfied in previous periods (for example, changes in transaction price). 94	Do not amend the lead sentences of these paragraph to disclose "all of the following" as this would not be consistent with how the other disclosure requirements are worded.

	An entity shall disclose information about its performance obligations in contracts with customers, including a description of: (a) the significant payment terms (for example, when payment is typically due, whether the contract has a significant financing component, whether the consideration amount is variable and whether the estimate of variable consideration is typically constrained applying paragraphs 56–58 of IFRS 15); (b) obligations for returns, refunds and other similar obligations; and (c) types of warranties and related obligations. 98 An entity shall disclose: (a) the closing balances of assets recognised from the ***costs*** incurred to obtain or fulfil a contract with a customer (applying paragraphs 91 or 95 of IFRS 15), by main category of asset (for example, costs to obtain contracts with customers, pre-contract costs and setup costs); and (b) the amount of amortisation and any impairment losses recognised in the reporting period.	
IFRS 16	100 (c) Except for ***leases*** it accounts for applying paragraph 6 of IFRS 16 (***short-term leases*** or leases for which the ***underlying asset*** is of low value), a ***lessee*** shall disclose: (c) lease liabilities at the end of the reporting period;	Delete the proposed requirement to disclose "lease liabilities at the end of the reporting period", not required in paragraph 53 of IFRS 16.
IFRS 16	101 When an impairment has been recognized (or reversed) applying IAS 36 to a lessee's right-of-use assets, an entity provides the disclosures required by paragraphs 190–191 of this [draft] Standard.	Delete the proposed requirement to disclose impairment losses on right-of-use assets as it is not required by IFRS 16.
IFRS 16	106 (a) For ***finance leases***, a lessor shall disclose: (a) a reconciliation between the ***net investment*** in the lease at the end of the reporting period and the undiscounted lease payments receivable at the end of the reporting period. A lessor shall also disclose the undiscounted lease payments receivable at the end of the reporting period: (i) no later than one year from the reporting date; (ii) later than one year and up to five years from the reporting date; and (iii) later than five years from the reporting date. 107 (a) For ***operating leases***, a lessor shall disclose: (a) the future lease payments receivable: (i) no later than one year from the reporting date; (ii) later than one year and up to five years from the reporting date; and (iii) later than five years from the reporting date;	Do not amend the time buckets for the disclosure of lease payments receivable, contrast with paragraphs 94 and 97 of IFRS 16

IFRS 16	109 The disclosure requirements in paragraphs 100–108 for lessees and lessors also apply to sale and leaseback transactions. The required description of significant leasing arrangements includes the description of unique or unusual provisions of the agreement or terms of the sale and leaseback transactions.	Delete the proposed paragraph on sale and leaseback transactions as there is no equivalent in IFRS 16.
IAS 2	128 (d) An entity shall disclose: (d) the amount of any write-down recognised or reversed in profit or loss as required by paragraph 34 of IAS 2; and	Amend the proposed requirements to match paragraph 36(e) - (f) of IAS 2.
IAS 7	133 An entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the entity. Foreign exchange controls or legal restrictions could be an example of why cash and cash equivalents held by an entity may not be available for use by the entity.	Amend the proposed requirements to match paragraph 48 of IAS 7.
IAS 12	146 (e) An entity shall disclose separately the major components of ***tax expense (income)***. Such components of tax expense (income) may include: e) the amount of the benefit arising from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce tax expense;	Amend the proposed requirement to disclose the amount of benefit arising from a previously unrecognised tax loss as is required by paragraph 80(e) - (f) of IAS 12.
IAS 12	147 (e) An entity shall disclose separately: e) for each type of temporary difference and for each type of unused tax losses and unused tax credits: (i) the amount of deferred tax liabilities and deferred tax assets at the end of the reporting period; and (ii) an analysis of the change in deferred tax liabilities and deferred tax assets during the reporting period.	Amend the proposed requirement to disclose an ‘analysis of the change in deferred tax liabilities’ to match the requirement in paragraph 81(g)(ii) of IAS 12.
IAS 19	152 (d) Except for any multi-employer defined benefit plans that are accounted for as defined contribution plans by applying paragraph 34 of IAS 19, for which the disclosures in paragraph 151 apply, an entity shall disclose the following about defined benefit plans: (d) for each major class of plan assets, which shall include, but is not limited to, equity instruments, debt instruments, property, and all other assets, the percentage or amount that each major class of plan assets constitutes of the fair value of the total plan assets at the reporting date;	Amend the proposed requirement to match the structure of the requirement in paragraph 142 of IAS 19 to disaggregate the fair value of plan assets into classes but retaining the examples in the ED.

IAS 19	152 (f) Except for any multi-employer defined benefit plans that are accounted for as defined contribution plans by applying paragraph 34 of IAS 19, for which the disclosures in paragraph 151 apply, an entity shall disclose the following about defined benefit plans: f) the principal actuarial assumptions used, including: (i) the discount rates; (ii) the expected rates of salary increases; (iii) medical cost trend rates; and (iv) any other material actuarial assumptions used.	Amend the proposed requirement as is required by paragraph 144 of IAS 19.
IAS 19	154 If an entity has more than one defined benefit plan, the disclosures required by paragraph 152 may be made in total, separately for each plan, or in groupings the entity considers to be the most useful.	Amend the proposed statement that disclosures “may be made in total, separately for each plan, or in groupings the entity considers to be most useful” to the requirement in paragraph 138 of IAS 19.
IAS 19	158 For each category of ***other long-term employee benefits*** that an entity provides to its employees, the entity shall disclose the nature of the benefit, the amount of its obligation and the extent of funding at the reporting date. 159 For each category of ***termination benefits*** that an entity provides to its employees, the entity shall disclose the nature of the benefit, the amount of its obligation and the extent of funding at the reporting date.	Delete these paragraphs that require disclosing information about other long-term employee benefits and termination benefits, not required by IAS 19.
IAS 29	181 (c) An entity shall disclose: c) the amount of gain or loss on monetary items.	Delete the proposed requirement to disclose the amount of gain or loss on monetary items, not in paragraph 39 of IAS 29.
IAS 37	196 (a) For each class of provision, an entity shall disclose for the current period (comparative information for prior periods is not required): (a) a reconciliation showing: (i) the carrying amounts at the beginning and end of the period; (ii) additions during the period, including adjustments that result from changes in measuring the discounted amount; (iii) amounts charged against the provision during the period; and (iv) unused amounts reversed during the period;	Amend the proposed requirement to require the separate disclosure of “additional provisions made in the period” and paragraph 84(e) of IAS 37 as is required by paragraph 84 of IAS 37.
IAS 41	210 With respect to an entity’s ***biological assets*** measured at fair value less ***costs to sell***, the entity shall disclose: (a) a description of each ***group of biological assets***. (b) a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current reporting period.	Amend the paragraph to remove the reference to “biological assets” measured at FV less cost to sell since the requirements in paragraphs 41 and 50 of IAS 41.

	The reconciliation need not be presented for prior periods. The reconciliation shall include: (i) the gain or loss arising from changes in fair value less costs to sell; (ii) increases resulting from purchases; (iii) decreases attributable to sales and biological assets classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5; (iv) decreases resulting from ***harvest***; (v) increases resulting from business combinations; (vi) net exchange differences arising on the translation of financial statements into a different presentation currency and on the translation of a foreign operation into the presentation currency of the reporting entity; and (vii) other changes.	