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IFRS Developments

Subsidiaries without public accountability: disclosures

What you need to know

- Subsidiaries without public accountability of a parent that prepares consolidated financial statements available for public use in compliance with IFRS Standards, will be eligible to apply the proposals.
- Eligible entities that elect to apply the reduced disclosure requirements would still be required to apply the recognition, measurement and presentation requirements of IFRS Standards.
- Election is optional and can be revoked at any time. An entity can also elect to apply the proposals more than once.
- The comment period for the ED ends on 31 January 2022.

Highlights

On 26 July 2021, the International Accounting Standards Board (the IASB or the Board) issued an Exposure Draft ED/2021/7, *Subsidiaries without Public Accountability: Disclosures* (the ED), which proposes to allow eligible entities to elect to apply reduced disclosure requirements while still applying the recognition, measurement and presentation requirements in IFRS Standards. An entity may revoke its election at any time, and it may elect to apply the proposals more than once.

The proposals are a result of the responses to the Board's Request for Views (RFI): *2015 Agenda Consultation;* respondents had suggested that the Board consider permitting subsidiaries of a parent that prepares consolidated financial statements available for public use, which comply with IFRS Standards, to apply IFRS Standards with reduced disclosure requirements. Respondents noted that although the *IFRS for SMEs* Standard has fewer disclosure requirements, its recognition and measurement requirements differ from those in IFRS Standards, which means that the subsidiary would have to maintain additional accounting records if it applies the *IFRS for SMEs* Standard.

The Board undertook this project to reduce the cost of preparing IFRS financial statements for subsidiaries that are not publicly accountable, while maintaining the usefulness of the information provided. The Board believes that the usefulness of the financial statements is maintained because the disclosures would be tailored to the needs of users of the subsidiaries' financial statements by removing certain disclosures that are more relevant for publicly accountable entities.

The Board's approach was to look to the disclosure requirements in the *IFRS for SMEs* Standard as they are tailored to the needs of the relevant users. It then identified any differences in the recognition and measurement requirements

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in IFRS Standards and the *IFRS for SMEs* Standard. Where differences existed, the disclosure requirements in IFRS Standards were tailored applying the principles used in developing disclosure requirements for *the IFRS for SMEs* Standard. If there were no differences, the disclosure requirements in the *IFRS for SMEs* Standard were adopted.

Objective of the proposals

The objective of the proposals is to allow eligible subsidiaries to elect to apply the reduced disclosure requirements proposed in the ED, while still applying the recognition, measurement and presentation requirements in IFRS Standards.

The main body of the ED provides a list of disclosures that are required, organised by IFRS Standard. In addition, those disclosure requirements in IFRS Standards that remain applicable are generally indicated in footnotes next to the subheading of the IFRS Standard to which they relate. For information purposes, the disclosure requirements in IFRS Standards that the Board deemed not necessary for subsidiaries without public accountability and are therefore not required, are included in Appendix A of the ED.

Entities will need to apply all of the requirements of the applicable IFRS Standard in order to comply with the requirements of the ED. Entities will be required, as a minimum, to provide all the disclosures in the ED.

The Board made a specific decision not to include IFRS 8 *Operating Segments*, IFRS 17 *Insurance Contracts* and IAS 33 *Earnings per Share* into the scope of this ED . If applicable, the disclosure prescribed by these individual standards would need to be provided in full.

How we see it

When applying the proposals in practice, entities will need to consider the following: the relevant paragraphs in the ED that explain which disclosures are required; the disclosures that are specifically excluded from the proposals; and also the disclosure requirements of other IFRS Standards that are still applicable, but which are not addressed specifically in the ED.

Who can apply the proposals – the scope

An entity may apply the proposals if, at the end of the reporting period, it is a subsidiary, it does not have public accountability and it has a parent that produces consolidated financial statements that comply with IFRS Standards.

An entity may elect to apply the proposals in the ED if at the end of the reporting period:

- It is a subsidiary as defined in IFRS 10 *Consolidated Financial Statements*
- It does not have public accountability
- It has a parent that prepares consolidated financial statements, available for public use, which comply with IFRS Standards.

The concept of public accountability is consistent with that in paragraph 1.3 of the *IFRS for SMEs* Standard but it is important to note that full IFRS Standards do not contain the notion of public accountability as they require all entities to apply IFRS Standards in full when applicable in their jurisdiction. The proposals in the ED borrow from the *IFRS for SMEs* Standard by stating that an entity has public accountability if “its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market” or it “holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses”. Entities that are captured by the holding assets in a fiduciary capacity category must do so for the purposes of their primary business. Entities that hold assets in a fiduciary capacity for incidental reasons to the primary business are not publicly accountable.

Electing to apply the proposals

An entity that meets the requirements to apply the proposals described as above may apply them on a voluntary basis. An entity may revoke its election to apply the proposals at any time, in which case, it would be required to prepare complete IFRS financial statements. The proposals allow for an entity to elect to apply the proposals more than once, allowing entities that have revoked their election to reapply them in a later period.

During the first period in which an entity applies the proposals, the comparative information provided should be for all amounts that are presented in the current period. This information may include both narrative and descriptive information, if relevant. Similarly, an entity that revokes its election to apply the proposals will, in the first year of full IFRS financial statements, need to prepare full comparative disclosures for all amounts presented.

Statement of compliance

Paragraph 22 of the ED proposes that an entity must disclose the fact that it is applying the proposals together with the statement of compliance required by paragraph 110. Paragraph 110 requires an entity whose financial statements comply with IFRS Standards, to make an explicit and unreserved statement of compliance.

Applying the proposals

Entities that apply the proposals would still be required to apply recognition, measurement and presentation requirements in IFRS.

Entities that apply the proposals would still be required to apply the recognition, measurement and presentation requirements in IFRS Standards. As noted above, in order to establish the disclosure requirements, entities will apply IFRS Standards, except for the disclosure requirements listed in Appendix A, which are replaced by the disclosure requirements in paragraphs 22 to 213 of the ED.

The proposals also provide another layer of disclosure requirements, that is, those disclosure requirements in IFRS Standards that remain applicable, in addition to those required in paragraphs 22 to 213 of the ED. They are generally indicated in a footnote under the subheading of the IFRS Standard to which they relate. For example, footnote 6 to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* on page 24 of the ED, which states that "[i]n addition to the disclosures required by this [draft] Standard when an entity has applied IFRS 5, the following paragraphs in IFRS 5 use the word 'disclose' in requirements that remain applicable: paragraphs 12, 33(a) and 34." So, whilst these items are not explicitly noted in the paragraphs relating to IFRS 5 in the proposals (i.e., paragraphs 39 and 40), they would still be required to be given by entities applying the proposals.

Entities that choose to apply the proposals in this ED need not provide disclosures required by these proposals if they are immaterial. However, they should be aware of the requirements to provide additional disclosures, if the disclosures in the proposals do not provide sufficient information to enable users to understand the financial statements.

Effective date and transition

Early application of the proposals would be permitted for eligible entities. When an entity first applies this ED but did not in the immediate preceding period, it would need to provide comparative information for the preceding period for all amounts reported in the current period's financial statements, unless the ED permits otherwise.

Next steps

The comment period closes on 31 January 2022.

How we see it

We encourage stakeholders to provide feedback to the IASB in the form of comment letters, to contribute to a well-grounded and robust discussion when the Board considers making final amendments to the requirements in the next phase.

Given this ED proposes to reduce the disclosure requirements for subsidiaries without public accountability, preparers of financial statements for such entities are likely to be particularly interested in it.

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ED None