

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG 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 Board or EFRAG 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 Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

Subsidiaries that SMEs Cover Note

Objective

- 1 The objective of the session is for EFRAG TEG to continue to discuss the IASB's tentative decisions on the project *Disclosure Initiative — Subsidiaries that are SMEs*.

Background on the IASB's Project

- 2 In the 2015 Agenda Consultation, a number of respondents called for the IASB to permit subsidiaries to apply IFRS Standards but with reduced disclosure requirements. These respondents noted that the use of the IFRS for SMEs Standard is not attractive for subsidiaries that report to their parent for consolidation purposes and apply the recognition and measurement requirements of IFRS Standards.
- 3 In addition, it was argued that these subsidiaries preferred to use the recognition and measurement requirements of IFRS Standards but with less onerous disclosure requirements. Such an approach would reduce costs, without removing information needed by the users of the subsidiaries' financial statements.
- 4 In March 2016, the IASB added a research project to its pipeline but it only became active in March 2019. Since then, the key topics discussed by the IASB were:

<p>Research phase (EFRAG TEG- CFSS March 2019 and EFRAG TEG May 2020)</p>	<ul style="list-style-type: none"> • Would a reduced-disclosure IFRS Standard be adopted by jurisdictions and applied by subsidiaries that are SMEs (IASB September 2019 meeting)? • Can the IASB utilise the disclosure requirements of the <i>IFRS for SMEs</i> Standard with only minimal tailoring (IASB October 2019 meeting)? • How can the project benefit subsidiaries (IASB November 2019 meeting)? • Moving the project to the standard-setting programme (IASB January 2020 meeting)
<p>Scope of the project (EFRAG TEG March 2021)</p>	<ul style="list-style-type: none"> • Should the scope remain subsidiaries that are SMEs, be extended to all SMEs, somewhere between the two or be narrower (IASB November 2019, December 2020, January 2021 meeting)?
<p>Presentation</p>	<ul style="list-style-type: none"> • Should the reduced-disclosure IFRS Standard require the subsidiaries to apply the presentation requirements of IFRS

Subsidiaries that are SMEs – Cover Note

<p>(EFRAG TEG May 2020)</p>	<p>Standards or the presentation requirements of the IFRS for SMEs Standard (April 2020 meeting)?</p>
<p>Disclosures – main principles (EFRAG TEG March 2021)</p>	<ul style="list-style-type: none"> • How to adapt the disclosure requirements of the <i>IFRS for SMEs</i> Standard (October 2019 meeting)? • Should there be exceptions to the process for adapting disclosure requirements (e.g. (November 2020 meeting)? • When should the IASB consider disclosure requirements for new and amended IFRS Standards (November 2020 meeting)?
<p>Disclosures – specific issues</p>	<ul style="list-style-type: none"> • Should the compliance statement required by paragraph 16 of IAS 1 <i>Presentation of Financial Statements</i> differentiate the entities that have applied the reduced-disclosure IFRS Standard (IASB October 2020 meeting)? • Should the disclosure requirements of IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> be applied by subsidiaries applying the reduced-disclosure IFRS Standard (IASB October 2020 meeting)? • Should the disclosure requirements for transition provisions of new and amended IFRS Standards be applied by subsidiaries applying the reduced-disclosure IFRS Standard (IASB October 2020 meeting)? • Should the disclosure requirements on combined financial statements from paragraph 9.30 of the <i>IFRS for SMEs</i> Standard be included in the reduced-disclosure IFRS Standard (IASB October 2020 meeting)? • Should a subsidiary applying the reduced-disclosure IFRS Standard be required to apply the disclosure requirements of IAS 33 <i>Earnings per Share</i> (omitted topic in IFRS for SMEs) (IASB November 2020 meeting)? • Should the reduced-disclosure IFRS Standard include disclosure requirements for interim financial reports (omitted topic in IFRS for SMEs) (IASB November 2020 meeting)? • Should the reduced-disclosure IFRS Standard include disclosure requirements for regulatory deferral account balances (omitted topic in IFRS for SMEs) (IASB November 2020 meeting)? • Should the reduced-disclosure IFRS Standard include disclosure requirements for subsidiaries applying IFRS 17 <i>Insurance Contracts</i> (omitted topic in IFRS for SMEs) (IASB December 2020 meeting)? • Which disclosure requirements should be proposed in the reduced-disclosure IFRS Standard for cash-generating units containing goodwill and intangible assets with indefinite useful lives (IASB January 2021 meeting)?
<p>Transition to the reduced-</p>	<ul style="list-style-type: none"> • Is there a need to amend to IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> or include

<p>disclosure IFRS Standard.</p>	<p>transition provisions in the reduced-disclosure IFRS Standard (IASB December 2020 meeting)?</p> <ul style="list-style-type: none"> • Could the reduced-disclosure IFRS Standard be applied for the ‘first time’ more than once (IASB December 2020 meeting)? • Is first-time application of the reduced-disclosure IFRS Standard an accounting policy choice (IASB December 2020 meeting)?
<p>Consultation document (EFRAG TEG March 2021)</p>	<ul style="list-style-type: none"> • Should the consultation document be an exposure draft or a discussion paper (IASB January 2021)?

Background of EFRAG’s Discussions

- 5 The topics shaded in grey have already been considered by EFRAG TEG (EFRAG TEG-CFSS meeting in March 2019, EFRAG TEG May 2020 and EFRAG TEG March 2021). In those meetings, EFRAG TEG members:
- (a) noted that the interest in such a standard in the European Union would vary across jurisdictions as some allow the use of IFRS Standards for the annual accounts (including separate financial statements) and some do not, and some have already developed reduced disclosure standards in national GAAP;
 - (b) generally agreed with the scope of the project and the IASB’s key principles on how to adapt the disclosure requirements of IFRS for SMEs. When discussing whether the scope of the project should be expanded, some EFRAG TEG members noted that:
 - (i) the project was focused on reducing the costs for a subset of SMEs that have to report in IFRS to the group;
 - (ii) that the IASB was experimenting something new and restricting the scope would allow the IASB to better test its new approach; and
 - (iii) that if the scope were to be extended, then users may not receive the information needed
 - (c) noted that considering all the disclosure requirements in IFRS Standards in the light of paragraph BC157 of IFRS for SMEs was perhaps the most appropriate approach but acknowledged that such an approach would be time consuming. As the IASB was going to publish an ED with detailed proposals and an extended consultation period, EFRAG TEG members would have the chance to see whether the IASB’s approach was going to work in practice;
 - (d) lengthy descriptions that are currently provided in consolidated financial statements could be avoided in the financial statements of the subsidiaries that apply the same accounting policies (to avoid double descriptions), in particular when applying the requirements in IFRS 7 *Financial Instruments: Disclosures* (e.g. when describing risk management framework) and IFRS 13 *Fair Value* (e.g. when describing measurement principles and methodologies);
 - (e) highlighted the importance of having a reduced-disclosure IFRS Standard which is aligned with the implementation dates of full IFRS Standards, so that subsidiary and its parent could present the same information.

Questions for EFRAG TEG

- 6 In this meeting, the EFRAG TEG members will discuss disclosure specific issues (remaining topics in the table).

Questions for EFRAG TEG – for each topic (12 topics in total), the EFRAG Secretariat will ask EFRAG TEG members:

- (a) Whether they agree with the EFRAG Secretariat analysis
- (b) Whether they have any other comments on the topic.

Next steps

- 7 The IASB is planning to issue an Exposure Draft on *Disclosure Initiative — Subsidiaries that are SMEs* in the third quarter of 2021 (late July 2021). At its February 2021 meeting, the IASB decided to have a 180-day comment period (late January 2022).
- 8 As soon as EFRAG TEG finalises its discussions of the topics included on the table, the EFRAG Secretariat is planning to discuss the key messages to be included in EFRAG's Draft Comment Letter (EFRAG DCL) before the holiday season and have the voting of EFRAG DCL by EFRAG TEG in Q3 2021.

Agenda Papers

- 9 In addition to this cover note, agenda papers for this session are:
- (a) Agenda paper 07-02 – Update to EFRAG TEG;
 - (b) Agenda paper 07-03 – Summary of the IASB tentative decisions – for background only.