SUBSIDIARIES WITHOUT PUBLIC ACCOUNTABILITY

EFRAG TEG-CFSS meeting

15 September 2021

EFRAG

European Financial Reporting Advisory Group

OBJECTIVE OF THE SESSION

PROVIDE AN OVERVIEW OF THE IASB's PROPOSALS

KEY POINTS RAISED BY EFRAG TEG AND BOARD

DISCUSS THE IMPACT OF THE IASB's PROPOSALS IN EU

QUESTIONS TO EFRAG CFSS (POLLING QUESTIONS)

IASB PROPOSALS

[***IASB Exposure Draft****: Subsidiaries without Public Accountability: Disclosures*]

[***Basis for Conclusions****: Subsidiaries without Public Accountability: Disclosures*]

[***Snapshot:*** *Subsidiaries without Public Accountability: Disclosures*]

SUBSIDIARIES WITHOUT PUBLIC ACCOUNTABILITY

Objective of the ED

To permit eligible subsidiaries to apply IFRS Standards with **reduced disclosure requirements** in order to **simplify** and **reduce costs** of financial reporting while **maintaining the usefulness** of financial statements

The IASB Proposals

A voluntary IFRS Standard for eligible subsidiaries that sets out :

- the disclosure requirements for a subsidiary electing to apply it
- the disclosure requirements in other IFRS Standards that it would replace

Eligible Subsidiary

If at the end of the reporting period a subsidiary:

- does not have public accountability
- has an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Standards

SUBSIDIARIES WITHOUT PUBLIC ACCOUNTABILITY

WHO IS IN THE SCOPE OF THE PROJECT?

For Subsidiaries

Subsidiary is defined in IFRS 10 *Consolidated Financial Statements*

The proposals could be applied by an eligible subsidiary in its consolidated, separate or individual financial statements

That at the end of the reporting period does not have public accountability

- A company has public accountability if its debt or equity instruments are traded in a public market or if it holds assets in a fiduciary capacity for a broad group of outsiders

And have a parent that produces financial statements that comply with IFRS Standards

- A subsidiary is eligible if it has an ultimate or intermediate parent that produces consolidated financial statements applying IFRS Standards

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HOW THE IASB DEVELOPED THE DISCLOSURE REQUIREMENTS ?

Based on IFRS for SMEs disclosure requirements

Is there a recognition and measurement difference with IFRS Standards?

NO

Use the disclosure requirements in the IFRS for SMEs Standard but:

- align terms and language with IFRS Standards
- update paragraph cross-references

YES

Tailor the disclosure requirements in IFRS Standards by applying the principles used to develop the disclosure requirements in the IFRS for SMEs Standard

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TIMING AND OTHER KEY POINTS

- The ED published in **July 2021** with a comment period ending **31 January 2021**
- The ED includes all IFRS Standards issued as at 28 February 2021 and exposure drafts published as at 1 January 2021, except for the ED *General Presentation and Disclosures*
- Disclosure requirements about transition included in a new or amended IFRS Standard would be required when applying the draft Standard
- Appendix A of the draft Standard lists the disclosure requirements in IFRS Standards that are replaced when a subsidiary applies the draft Standard
- Some disclosure requirements in IFRS Standards remain applicable when a subsidiary applies the draft Standard. They are generally indicated in a footnote to the subheading of the IFRS Standard to which they relate
- The disclosure requirements in IFRS 8 *Operating Segments*, IFRS 17 *Insurance Contracts* and IAS 33 *Earnings per Share* remain applicable and are not included in the draft Standard. The application of the disclosure requirements in these Standards is unchanged for a subsidiary applying the draft Standard

KEY POINTS RAISED BY EFRAG TEG AND BOARD

SUBSIDIARIES WITHOUT PUBLIC ACCOUNTABILITY

KEY POINTS RAISED BY EFRAG TEG AND EFRAG BOARD

- General support for the **objective** of the IASB project
- Debate on whether the **scope** should be widened to include for example all entities without public accountability (similar to the alternative view expressed by the IASB Board member Françoise Flores) and insurance companies
- Support for using *IFRS for SMEs* Standard as a basis for developing reduced disclosure requirements
- Minor comments on individual Standards' reduced disclosure requirements
- The EFRAG Draft Comment Letter will be discussed at EFRAG TEG meeting on 16 September (please see the EFRAG draft comment letter for discussion here)

IMPACT OF THE IASB's PROPOSALS IN THE EU

SUBSIDIARIES WITHOUT PUBLIC ACCOUNTABILITY

IMPACT OF THE IASB's PROPOSALS IN THE EU - BASED ON SURVEY RESULTS

- The usefulness of and the benefits from the new reduced disclosure standard in EU would differ between member states and would depend, amongst others on the use of the option included in the IAS Regulation
- For example:
  - **in France** the use of IFRS Standards is not permitted for annual accounts and subgroups that have an IFRS intermediate or ultimate parent company are usually not obliged to issue consolidated financial statements. Thus, limited or no benefit is expected
  - **in Denmark** entities following Danish GAAP are allowed to use IFRS as interpretation as long as it does not conflict with the EU Accounting Directive. The new IFRS Standard is likely to be permitted and it would benefit most subsidiaries of listed companies reporting to a parent using an IFRS reporting package

SUBSIDIARIES WITHOUT PUBLIC ACCOUNTABILITY

IMPACT OF THE IASB PROPOSALS IN THE EU - BASED ON SURVEY RESULTS

- **in Norway** entities and groups (including the separate financial statements of listed parent companies) in scope of the Norwegian Accounting act can voluntarily choose between *IFRS* (as adopted by EU), "*IFRS Simplified*" and *Local GAAP*. Thus, the IASB proposals would be applicable and beneficial for those who have opted for IFRS

  For entities where *IFRS Simplified* is considered allowed, the IASB proposals would be suitable and provide more relevant information

- **In Lithuania** the IFRS Standards are permitted for all profit seeking companies and required for public interest entities. Therefore, the new standard will be beneficial for the entities in scope

- **Good to know**: *IFRS for SMEs* are not widely used or accepted in these countries
- No incompatibilities between the IASB's proposals and the Regulation (EC) No 1606/2002 or Directive 2013/34/EU were identified

QUESTIONS TO EFRAG CFSS

SUBSIDIARIES WITHOUT PUBLIC ACCOUNTABILITY

QUESTIONS TO EFRAG CFSS (Polling questions in the meeting)

- If the IASB issued a reduced-disclosure IFRS Standard for subsidiaries in the scope of this project, would it be permitted or required in your jurisdiction?
- Do you think the requirements in your jurisdiction might change after the issuance of the standard?
- Do you expect any incremental benefits for the European companies in your jurisdiction?
- Do you foresee any incompatibilities between the IASB's proposals included in the ED and the Regulation (EC) No 1606/2002?
- Do you foresee any incompatibilities between the IASB's proposals included in the ED and the Directive 2013/34/EU?
- Do you foresee any other incompatibilities?

In case the proposed multiple choice answers do not cover your potential response or you want to add some reasons, please explain within the meeting.

EFRAG receives financial support of the European Union - DG Financial Stability, Financial Services and Capital Markets Union. The content of this presentation is the sole responsibility of EFRAG and can under no circumstances be regarded as reflecting the position of the European Union.

THANK YOU !

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