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Subsidiaries without Public Accountability: Disclosures

EFRAG SECRETARIAT STUDY ON COMPATIBILITY OF THE EU ACCOUNTING DIRECTIVE WITH THE IASB'S EXPOSURE DRAFT

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EXECUTIVE SUMMARY

1 In July 2021 the IASB issued an *Exposure Draft: Subsidiaries without Public Accountability: Disclosures* (ED or draft Standard), open for consultation until the 31 January 2022.

2 If, following this consultation,

(a) the IASB decides to issue a reduced-disclosure IFRS Standard (draft Standard) for eligible subsidiaries;

(b) the European Union ("EU") decides to endorse such an IFRS Standard; and

(c) EU Member States permit or require the use of IFRS Standards in accordance with the Article 5 of the EU Regulation 1606/2002,

then several subsidiaries may decide to move away from full disclosures in IFRS Standards or move from national GAAP to IFRS Standards in jurisdictions where EU Member States allow or require IFRS Standard for non-listed entities [1].

3 Therefore, the IASB's draft Standard could be seen, to a certain extent, as "competing" with national GAAPS and the Accounting Directive 2013/34/EU, even if in a limited way (when considering the narrow scope proposed by the IASB and the number of EU Member States that allow or require the use of EU-endorsed IFRS Standards for non-listed entities).

4 In the context of the IASB consultation on the ED, the EFRAG Secretariat undertook a high-level analysis of:

(a) whether there are different disclosure requirements in the Accounting Directive 2013/34/EU and the ED as a result of different measurement and recognition requirements (e.g. disclosures on amortisation of goodwill)

(b) whether there are any disclosures in the Accounting Directive 2013/34/EU that are missing or insufficient in the IASB's ED. In particular, whether the reduced disclosure requirements of the ED, when compared to full IFRS, implies losing disclosures that are required by the AD.

5 Such an assessment is expected to help European stakeholders and the European Commission to assess, among other things, whether the draft Standard ensures an equivalent level of protection of shareholders (including non-controlling shareholders), creditors, members and other third parties as the Accounting Directive 2013/34/EU.

6 Such an assessment will also help the EFRAG Secretariat to assess whether there are any disclosures that are missing or insufficient in the ED (particularly when considering the AD, ED and IFRS Standards altogether).

The EFRAG Secretariat's approach

7 The EFRAG Secretariat developed its analysis in three main steps:

(a) Step 1: Identify different disclosure requirements in the Accounting Directive 2013/34/EU and the ED as a result of different measurement and recognition requirements (please see Chapter 2 for details).

(b) Step 2: Identify the disclosures that are insufficient or not required in the ED (please see Chapter 2 for details).

[1] In accordance with the Article 5 of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards.

(c) Step 3: Updated overview of the use of options provided in the EU Regulation (1606/2002) in the EU (please see Chapter 3 for details).

Step 1: Different disclosures requirements as a result of different recognition and measurement requirements

8 The EFRAG Secretariat highlights that under IFRS Standards an impairment test is required for intangible assets with indefinite useful life, including goodwill, while under the Accounting Directive 2013/34/EU intangible assets, including goodwill, are written off over its useful economic life or - where the useful life cannot be reliably estimated – the maximum period set by the Member State. As a result, there are no disclosures in the ED of the period over which intangibles with indefinite useful lives, including goodwill, are written off.

9 The EFRAG Secretariat also notes that for many accounting areas (for example on leases, deferred tax and pension obligations) the Accounting Directive 2013/34/EU is silent. In those cases, the EFRAG Secretariat considered that there are no differences. Nonetheless, the EFRAG Secretariat notes that although there are no different disclosure requirements when the Accounting Directive 2013/34/EU is silent on a topic, there may still be different disclosure requirements between the ED and the different national GAAPs in the EU. This is due to minimum harmonisation character of the Accounting Directive 2013/34/EU, which allows EU Member States to develop national financial reporting requirements.

Step 2: Disclosures that are insufficient or not required in the ED

10 The EFRAG Secretariat has identified a number of disclosures in the Accounting Directive 2013/34/EU that are missing or insufficient in the IASB's ED. The disclosures missing are mainly about:

(a) The reporting entity and the group (its parent, subsidiaries, joint arrangements and associates). For example, where the file of the company is being kept and number in that register (Article 5); place where copies of the consolidated financial statements of the ultimate and intermediate parent may be obtained and name and registered office of undertakings in which participating interest is held (Article 17)

(b) Payments made to governments in the extractive and forestry industries;

(c) The use of specific measurement options (e.g., fair value);

(d) Exceptional items;

(e) Amounts owed falling due after more than 5 years;

(f) Average number of employees;

(g) Emoluments granted in respect of, the financial year to the members of administrative, managerial and supervisory bodies by reason of their responsibilities;

(h) The entity's shares (shares subscribed for, including by class and warrants, if appropriate) and proposed appropriation of profit or loss;

Any undertaking of which it is a member with unlimited liability;

(i) Business combinations within a group;

(j) Payments made to auditors (only for large undertakings and public interest entities);

(k) Required analysis of turnover by geographical markets and type of activity (only for large undertakings and public interest entities); and

(l) Any necessary disclosure if an exemption is used.

11 In Chapter 2, the EFRAG Secretariat has also identified a number of disclosures that are required in IFRS Standards and aligned with the Accounting Directive 2013/34/EU but are not required in the ED. In particular, those around the reporting entity and the group.

12 Still, the EFRAG Secretariat highlights that there are additional EU accounting rules to be applied when preparing IFRS financial statements. That is, when IFRS standards do not include specific disclosures that are required by the AD, such disclosures should be required by the national accounting laws and regulations that transpose the AD (and be an added to IFRS financial statements).

Step 3: Updated overview of the use of options provided in the IAS Regulation (1606/2002) in the EU

13 EFRAG received responses from 14 National Standard Setters. In almost cases, there is no change. The updated table can be found in appendix 3.

CHAPTER 1: BACKGROUND

IASB Exposure Draft Subsidiaries without Public Accountability: Disclosures

14 On 26 July 2021 the IASB published the Exposure Draft Subsidiaries without Public Accountability: Disclosures (ED) with the objective of developing a reduced-disclosure IFRS Standard that would apply on a voluntary basis to subsidiaries without public accountability. A short overview of the ED is also available in the snapshot published by the IASB.

15 The ED would permit eligible subsidiaries without public accountability to apply reduced disclosure requirements with the recognition, measurement and presentation requirements of IFRS Standards.

16 A subsidiary would be in the scope of the ED if, at the end of the reporting period, it:

(a) does not have public accountability (its debt or equity instruments are not traded in a public market, or it is not in the process of issuing such instruments for trading in a public market; and it does not hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses); and

(b) has an ultimate or intermediate parent that produces financial statements available for public use that comply with IFRS Standards.

17 An entity in the scope of the project is permitted to apply the ED in its consolidated, separate or individual financial statements

18 The IASB Board Member, Ms Françoise Flores voted against the proposals in the ED as she opposed to restricting the IASB's proposals to subsidiaries without Public Accountability. Ms Flores believed that any entity without public accountability should be eligible to apply the ED, because it is by design relevant to all of them.

EFRAG Draft Comment Letter

19 On 30 September 2021, EFRAG published its Draft Comment Letter (DCL), where it welcomes the IASB's efforts in developing reduced disclosure requirements for subsidiaries without public accountability and cautiously supports the proposed scope of the ED.

20 In its DCL, EFRAG cautiously agrees with the IASB's proposed scope. However, EFRAG recognises that there is also support for the alternative view expressed by Ms Françoise Flores in the Basis for Conclusion of the ED. Therefore, EFRAG has decided to ask constituents for their views on the scope of the ED.

21 Additional information on the scope of the ED and implications about its interrelation with EU Accounting Legislation is available in EFRAG DCL (notes to constituents on question 2) a briefing published by EFRAG Secretariat (see the following paragraphs 21 and 22).

EFRAG Secretariat Briefing on the scope of the IASB's project from an EU perspective

22 When EFRAG discussed this project with national standard setters and other stakeholders in different outreach events, many questions were raised on who would be able to apply the IASB's proposals in Europe. There were also many questions on the interaction between the IASB's proposals and the EU Accounting Legislation.

23 To address those questions, the EFRAG Secretariat issued a briefing focused on the scope of the IASB's project from an EU perspective on 9 December 2021. In particular, this Briefing highlighted that:

(a) The draft Standard would be part of full IFRS Standards and in principle subject to endorsement in the EU under the EU Regulation 1606/2002;

(b) If endorsed in the EU, the direct effects on reporting entities of an IFRS Standard based on this ED would depend on how the [Article 5] of the EU Regulation 1606/2002 has been implemented by the EU Member State to which the entity belongs and whether the subsidiary exemption in [Article 37] of the 2013 Accounting Directive has been used;

(c) If not endorsed, companies located in EU Member States may still be affected by the draft Standard if they have subsidiaries located outside of the EU in countries where IFRS Standards are applied.

Why a compatibility study?

24 If the IASB decides to issue an IFRS Standard focused on reduced disclosures for eligible subsidiaries and if the IFRS Standard is endorsed in the EU, then several subsidiaries may decide to move from national GAAP to IFRS Standards (in accordance with the Article 5 of the EU Regulation 1606/2002). Therefore, the IASB's draft Standard could be seen as in theory "competing" with the Accounting Directive 2013/34/EU, even if in a limited way (when considering the narrow scope proposed by the IASB), particularly if the ED is applied by Public Interest Entities in the EU.

25 Considering this, the EFRAG Secretariat undertook a high-level analysis of whether there are any disclosures in the Accounting Directive 2013/34/EU that are missing or insufficient in the IASB's ED.

26 Such an assessment is expected to help European stakeholders and the European Commission to assess, among other things, whether the draft Standard ensures an equivalent level of protection of shareholders (including non-controlling shareholders), creditors, members and other third parties as the Accounting Directive 2013/34/EU.

27 Such an assessment will also help the EFRAG Secretariat to assess whether there are any disclosures that are missing or insufficient in the ED (particularly when considering the AD, ED and IFRS Standards altogether).

EFRAG Approach for its analysis

28 The EFRAG Secretariat developed its analysis in three main steps:

(a) **Step 1**: identify different disclosure requirements in the Accounting Directive 2013/34/EU and the ED as a result of different measurement and recognition requirements. This also includes the analysis of options allowed in the Accounting Directive 2013/34/EU which are not allowed in IFRS Standards (please see Chapter 2 for details).

(b) **Step 2**: Identify the disclosures that are insufficient or not required in the ED. More specifically, the EFRAG Secretariat compared the disclosures in the Accounting Directive 2013/34/EU with those in the ED to identify whether there are any incompatibilities or missing information in the ED. This includes an analysis of whether the reduced disclosure requirements of the ED compared to full IFRS implies losing disclosures that are required by the AD.

(c) **Step 3:** Updated overview of the use of options provided in the EU Regulation (1606/2002) in the EU: The EFRAG Secretariat consulted national standard setters on whether the EC Staff Working Document Overview of the use of options in the EU Regulation 1606/2002 is up to date (last updated in December 2018 under the fitness check on public reporting by companies) (please see Chapter 3 for details).

29 However, the EFRAG Secretariat highlights that:

(a) The EFRAG Secretariat has compared the requirements of the IFRS Standards and the ED with those of the Accounting Directive 2013/34/EU only. As a result, any possible incompatibility between the IFRS Standards, the ED and other EU Directives are not listed below.

(b) The EFRAG Secretariat has performed its assessment from a technical accounting perspective only.

(c) In its analysis the EFRAG Secretariat has not considered in detail how the EU Accounting Directives have been implemented in the EU Member States. In particular, EFRAG Secretariat notes that when the Accounting Directive 2013/34/EU is silent on a topic, there may be incompatibilities (including disclosures) between the different national GAAPs in the EU and the IFRS Standards. This is due to minimum harmonisation character of the Accounting Directive 2013/34/EU, which allows EU Member States to develop national financial reporting requirements. The EFRAG Secretariat has not assessed the incompatibilities on disclosures at EU Member State level.

(d) The Directive contains a considerable number of options that the Member States must consider. Similarly, IFRS Standards contain a considerable number of options. To the extent possible, the EFRAG Secretariat assessed the incompatibilities of the options in terms of disclosures.

(e) The EFRAG Secretariat has not considered any disclosures related to Management Report. Management Report is a report that complements an entity's financial statements for which the IASB only provides guidelines but not requirements.

Other relevant publications and on-going consultations

30 EFRAG has conducted several outreach activities to gather input from European constituents:

(a) On 5 October 2021, EFRAG organised a joint webinar with the Confederation of Danish Industry, FSR – Danish Auditors with the participation of the IASB, where participants exchanged views on the costs and benefits of the IASB's project Subsidiaries without Public Accountability: Disclosures, as well as its scope and the approach used in developing the disclosure requirements.

(b) On 8 November 2021, EFRAG launched two surveys for preparers of financial statements (parents and subsidiaries) on the costs and benefits and some of the content of the IASB proposals.

(c) EFRAG has also reached out to European national standard setters to better understand the costs and benefits of the IASB proposals and whether there are any incompatibilities with the European Accounting Legislation. The latter was discussed twice with the EFRAG CFSS members in September and November 2021.

CHAPTER 2: COMPATIBILITY ANALYSIS

Step 1: Different disclosures requirements as a result of different recognition and measurement requirements

31 As explained in Chapter 1, the ED permits eligible subsidiaries to apply reduced disclosure requirements with the recognition, measurement and presentation requirements in IFRS Standards.

32 As a first step, the EFRAG Secretariat started by identifying the disclosures in the ED that are different from the Accounting Directive 2013/34/EU because the measurement and recognition requirements in IFRS Standards are different. For that purpose, the EFRAG Secretariat compared the measurement and recognition requirements included in the IFRS Standards and the Accounting Directive 2013/34/EU.

33 The EFRAG Secretariat notes that on many accounting treatments (for example on leases, deferred tax and pension obligations) the Accounting Directive 2013/34/EU is silent. In those cases, the EFRAG Secretariat considered that there are no incompatibilities. Nonetheless, the EFRAG Secretariat notes that although there are no incompatibilities when the Accounting Directive 2013/34/EU is silent on a topic, there may still be incompatibilities between the ED and the different national GAAPs in the EU. This is due to minimum harmonisation character of the Accounting Directive 2013/34/EU, which allows EU Member States to develop national financial reporting requirements.

34 The EFRAG Secretariat has identified the following difference in disclosures due to measurement and recognition differences between IFRS Standards and the Accounting Directive 2013/34/EU:

Intangible assets including goodwill:	• Under IFRS Standards an impairment test is required for intangible assets with indefinite useful life, including goodwill. • Under the Accounting Directive 2013/34/EU intangible assets, including goodwill, are written off over its useful economic life or - where the useful life cannot be reliably estimated - a maximum period set by the Member State. • As a result, there are no disclosures in the ED of the period over which intangibles with indefinite useful lives, including goodwill, are written off.

Disclosures related to options in the Accounting Directive 2013/34/EU that are not available in IFRS Standards	• The Accounting Directive 2013/34/EU provides a number of options and exemptions to EU Member States that are not available in IFRS Standards. In such cases, disclosures related to those accounting options do not exist neither in the IFRS Standards nor in the ED.
	• For example, under the Accounting Directive 2013/34/EU:
	  o the LIFO valuation of inventory is allowed
	  o the inclusion of formation expenses and cost of development under 'Assets' is permitted and shall be written off within a period of maximum five years (National law may also provide for formation expenses to be shown as the first item under 'Intangible assets).

	○ There is an option whereby Member States may permit or require proportional consolidation (in accordance with Article 26) ○ There are exemptions to prepare annual financial statements under certain conditions. • Both the ED and IFRS Standards do not require disclosures on those options as they do not exist in IFRS Standards.

Step 2: The disclosures that are insufficient or not required in the ED

35 As a second step, the EFRAG Secretariat compared the disclosures in the Accounting Directive 2013/34/EU with those in the ED. The EFRAG Secretariat has identified a number of disclosures in the Accounting Directive 2013/34/EU that are missing or insufficient in the ED (please see table below).

36 The disclosures missing in the ED are mainly about:

(a) The reporting entity and the group (its parent, subsidiaries, joint arrangements and associates). For example, where the file of the company is being kept and number in that register (Article 5); place where copies of the consolidated financial statements of the ultimate and intermediate parent may be obtained and name and registered office of undertakings in which participating interest is held (Article 17)

(b) Payments made to governments in the extractive and forestry industries;

(c) The use of specific measurement options (e.g., fair value);

(d) Exceptional items;

(e) Amounts owed falling due after more than 5 years;

(f) Average number of employees;

(g) Emoluments granted in respect of, the financial year to the members of administrative, managerial and supervisory bodies by reason of their responsibilities;

(h) The entity's shares (shares subscribed for, including by class and warrants, if appropriate) and proposed appropriation of profit or loss;

(i) Any undertaking of which it is a member with unlimited liability;

(j) Business combinations within a group;

(k) Payments made to auditors (only for large undertakings and public interest entities);

(l) Required analysis of turnover by geographical markets and type of activity (only for large undertakings and public interest entities); and

(m) Any necessary disclosure if an exemption is used.

37 In addition, the EFRAG Secretariat identified a number of disclosures that are required in IFRS Standards and aligned with the Accounting Directive 2013/34/EU but not required in the ED (text underlined below).

Preamble (37) and Article 28.2: Undertakings included in the	• The Accounting Directive 2013/34/EU requires that the consolidated financial statements should include all disclosures by way of notes to the financial statements for the undertakings included in the consolidation taken as a whole. The names, registered offices and group interest in

consolidation taken as a whole.	the undertakings' capital should also be disclosed in respect of subsidiaries, associated undertakings, jointly managed undertakings and participating interests. • Some information is not required neither by IFRS Standards nor the ED. For example, information necessary to identify the register in which the file is kept about the undertaking, and the number of the undertaking in that register, Registered office of the ultimate parent, name and registered office of the intermediate parent of the subgroup, place where consolidated financial statements of the ultimate and intermediate parent is available, etc. • Some of the information required in the EU Accounting Directive is also required under IFRS Standards, subject to materiality (e.g., paragraphs 10(a)(i), 12, 21, B4(a) and B5-B6 of IFRS 12 *Disclosure of Interests in Other Entities*). • **However, the ED requires limited disclosures on the interests in other entities and does not include some disclosures that are currently required by IFRS Standards. More specifically, the ED does not require:** o **an entity to provide information that enables users of consolidated financial statements to understand the composition of a group (as required by paragraphs 10(a)(i), B4(a) and B5-B6 of IFRS 12).** o **detailed information subsidiaries that have non-controlling interests that are material to the reporting entity, including the name of the subsidiary (as required by paragraph 12 of IFRS 12).** o **The name of each material joint arrangement or associate (as required by paragraph 21 of IFRS 12)** o **the nature of the entity's relationship with the joint arrangement or associate (as required by paragraph 21 of IFRS 12).** o **the proportion of ownership interest or participating share held by the entity and, if different, the proportion of voting rights held (as required by paragraph 21 of IFRS 12).** • **This was already noted in paragraph 107 of EFRAG DCL.**
Preamble (44) and Articles 41-48: Payments made to governments in the extractive industry	• The Accounting Directive 2013/34/EU requires disclosures of payments made to governments by large undertakings and public-interest entities which are active in the extractive industry or logging of primary forests. • **This information is not required neither in the ED nor in IFRS Standards.**
Preamble (48) and Articles 41-48: Payments made to governments in the extractive industry	• For undertakings active in the extractive industry or in the logging of primary forests, the Accounting Directive 2013/34/EU requires disclosures of any dividends paid in lieu of production entitlements or royalties.

	• **This information is not required neither in the ED nor in IFRS Standards.**
Article 5: Identification of the undertaking	• The Accounting Directive 2013/34/EU requires that document containing the financial statements state the name of the undertaking and the information prescribed by points (a) (*"information necessary to identify the register, where the file of the company is being kept and number in that register*) and (b) ("*legal form of the company and location of registered office; in certain cases information that a company is being wound up"*) of Article 5 of Directive 2009/101/EC. • Similar information is required in the EU Accounting Directive, ED and IFRS Standards on domicile and legal form of the entity, its country of incorporation and the address of its registered office and a description of the nature of the entity's operations and its principal activities. • **However, the EU Accounting Directive requires detailed information on where the file of the company if being kept and number in that register. This information is not required neither in the ED nor in IFRS Standards.**
Article 9.1: Departures from the layout of the balance sheet and of the profit and loss	• The Accounting Directive 2013/34/EU requires that the layout of the balance sheet and of the profit and loss account shall not be changed from one financial year to the next. Departures from that principle shall, however, be permitted in exceptional cases in order to give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss. **Any such departure and the reasons therefore shall be disclosed in the notes to the financial statements**. • Similar information is required in the EU Accounting Directive, ED and IFRS Standards. IAS 1 *Presentation of Financial Statements* requires an entity whose financial statements comply with IFRS Standards (including presentation requirements) to make an explicit and unreserved statement of such compliance in the notes. In extremely rare circumstances, management may conclude that compliance with an IFRS requirement (including presentation requirements) is so misleading that it would conflict with the objective of financial statements set out in the Framework. In such a case, the entity is required to depart from the IFRS requirement, with **detailed disclosure of the nature, reasons, and impact of the departure** (including presentation requirements) • **However, the EU Accounting Directive provides a more detailed layout of balance sheet and of the profit and loss account when compared to IFRS Standards. The EFRAG Secretariat notes that this is mainly a presentation issue (rather than a disclosure issue).**
Article 12.1: Assets or liabilities that	• The Accounting Directive 2013/34/EU requires that when an asset or liability relates to more than one layout item, its relationship to other items shall be disclosed either under the

relate to more than one layout item	item where it appears or in the notes to the financial statements. • **This information is not specifically required neither in the ED nor in IFRS Standards.**
Article 12.11: Goodwill	• The Accounting Directive 2013/34/EU requires an explanation of the period over which goodwill is written off within the notes to the financial statements. • **As already explained in step 1, this information is not required neither in the ED nor in IFRS Standards.**
Article 16.1(b): Disclosures on fixed assets that are measured at revalued amounts	• The Accounting Directive 2013/34/EU requires that when fixed assets are measured at revalued amounts, all undertakings shall disclose a table showing movements in the revaluation reserve in the financial year (with an explanation of the tax treatment of items therein), and the carrying amount in the balance sheet that would have been recognised had the fixed assets not been revalued. • Similar information is required in the EU Accounting Directive, ED and IFRS Standards. • <u>**However, the ED does not refer to paragraph 42 of IAS 16 *Property, Plant and Equipment* (paragraph 147(e) of the ED) which states that the effects of taxes on income, if any, resulting from the revaluation of property, plant and equipment are recognised and disclosed in accordance with IAS 12 *Income Taxes.* Although the reference is not there, the disclosure requirement in paragraph 147(e) of the ED still applies.**</u>
Article 16.1(c): Disclosures on financial instruments and/or assets other than financial instruments are measured at fair value	• The Accounting Directive 2013/34/EU requires that when financial instruments and/or assets other than financial instruments are measured at fair value, all undertakings shall disclose: (i) the significant assumptions underlying the valuation models and techniques where fair values have been determined in accordance with point (b) of Article 8(7), (ii) for each category of financial instrument or asset other than financial instruments, the fair value, the changes in value included directly in the profit and loss account and changes included in fair value reserves, (iii) for each class of derivative financial instrument, information about the extent and the nature of the instruments, including significant terms and conditions that may affect the amount, timing and certainty of future cash flows, and (iv) a table showing movements in fair value reserves during the financial year Similar information is required in the EU Accounting Directive, ED and IFRS Standards. • **Similar information is required in the EU Accounting Directive, ED and IFRS Standards.**

	• **Disclosures on the changes in value included directly in the profit and loss (Art. 16 (ii)) are only required for Level 3 of the fair value hierarchy (see par 80 (a)).** • **ED does not specifically refer to the disclosure requirements about the extent and the nature of each class of derivative financial instrument, including significant terms and conditions that may affect the amount, timing and certainty of future cash flows (Art. 16 (iii)). Still, the ED generally refers in paragraph 44 to information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance (including terms and conditions).**
Article 16.1(f): Exceptional items	• The Accounting Directive 2013/34/EU requires that in the notes to the financial statements all undertakings shall disclose information in respect of the amount and nature of individual items of income or expenditure which are of exceptional size or incidence. • **Neither the ED nor IFRS Standards explicitly require disclosures of the amount and nature of individual items of income or expenditure which are of exceptional size or incidence.** • **However, both the ED and IFRS Standards require that an entity discloses all material information (which includes items that are exception size or incidence).**
Article 16.1(g): Amounts due and payable after more than five years	• The Accounting Directive 2013/34/EU requires that all undertakings disclose information in respect of amounts owed by the undertaking becoming due and payable after more than five years, as well as the undertaking's entire debts covered by valuable security furnished by the undertaking, with an indication of the nature and form of the security. • **The ED does not require specific disclosures on amounts owed by the undertaking becoming due and payable after more than five years, as well as the undertaking's entire debts covered by valuable security furnished by the undertaking, with an indication of the nature and form of the security.** • <u>**The ED also does not require a maturity analysis for non-derivative financial liabilities that shows the remaining contractual maturities as in paragraph 39 of IFRS 7.**</u>
Article 16.1(h): Average number of employees	• The Accounting Directive 2013/34/EU requires disclosures of the average number of employees. • **This information is not required neither in the ED nor in IFRS Standards.**

Article 17.1(a): information for the various fixed asset items	• For medium-sized and large undertakings and public-interest entities, the Accounting Directive 2013/34/EU requires disclosures in respect of: (i) the purchase price or production cost or, where an alternative basis of measurement has been followed, the fair value or revalued amount at the beginning and end of the financial year, (ii) additions, disposals and transfers during the financial year, (iii) the accumulated value adjustments at the beginning and end of the financial year, (iv) value adjustments charged during the financial year, (v) movements in accumulated value adjustments in respect of additions, disposals and transfers during the financial year, and (vi) where interest is capitalised in accordance with Article 12(8), the amount capitalised during the financial year • Extensive information is required in the ED and IFRS Standards about non-current assets. • **However, neither the ED nor IFRS Standards require disclosures on where interest is capitalised.**
Article 17.1(c): where financial instruments are measured at purchase price or production cost	• For medium-sized and large undertakings and public-interest entities, the Accounting Directive 2013/34/EU requires disclosures when financial instruments are measured at purchase price or production cost. (i) for each class of derivative financial instrument: — the fair value of the instruments, if such a value can be determined by any of the methods prescribed in point (a) of Article 8(7) (fair value level 1 and level 2), and — information about the extent and nature of the instruments, (ii) for financial fixed assets carried at an amount in excess of their fair value: — the book value and the fair value of either the individual assets or appropriate groupings of those individual assets, and — the reasons for not reducing the book value, including the nature of the evidence underlying the assumption that the book value will be recovered. • Entities under the scope of the IASB's project would have to apply the classification and measurement requirements in IFRS Standards. All derivatives in scope of IFRS 9, including those linked to unquoted equity investments, are measured at fair value. A debt instrument that meets two specific conditions must be measured at amortised cost (net of any

	write down for impairment) unless the asset is designated at FVTPL under the fair value option. • **<u>However, the information above about fair value and carrying amounts in the Accounting Directive 2013/34/EU is not required in the ED (as the special case above does not arise when applying IFRS Standards). Still, paragraph 25 of IFRS 7 requires similar information. More specifically, it requires that for each class of financial assets and financial liabilities, an entity shall disclose the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount</u>**.
Article 17.1(d): Emoluments and pensions granted to the members of administrative, managerial and supervisory bodies	• For medium-sized and large undertakings and public-interest entities, the Accounting Directive 2013/34/EU requires disclosures of the amount of the emoluments granted to the members of administrative, managerial and supervisory bodies by reason of their responsibilities and any commitments arising or entered into in respect of retirement pensions of former members of those bodies, with an indication of the total for each category of body. • In accordance with IAS 24 and IAS 19, key management personnel compensation and pensions (for each category of other long-term employee benefits) are disclosed in total • **Neither the ED nor IFRS Standards require information about key management personnel compensation to be presented by 'reason of their responsibilities' or 'category of body'.**
Article 17.1(e): Average number of employees	• For medium-sized and large undertakings and public-interest entities the Accounting Directive 2013/34/EU requires disclosures in respect of the average number of employees during the financial year, broken down by categories and, if they are not disclosed separately in the profit and loss account, the staff costs relating to the financial year, broken down between wages and salaries, social security costs and pension costs. • **This information is not required neither in the ED nor in IFRS Standards**
Article 17.1(g): information of each of the undertakings in which it holds a participating interest	• For medium-sized and large undertakings and public-interest entities the Accounting Directive 2013/34/EU requires disclosures in respect of the name and registered office of each of the undertakings in which the undertaking, either itself or through a person acting in his own name but on the undertaking's behalf, holds a participating interest, showing the proportion of the capital held, the amount of capital and reserves, and the profit or loss for the latest financial year of the undertaking concerned for which financial statements have been adopted.

	• Some (but not all) of the information required in the EU Accounting Directive is also required under IFRS Standards, subject to materiality.
	• **<u>However, the ED requires limited disclosures on the interests in other entities and does not include some disclosures that are currently required by IFRS Standards. More specifically, it does not require:</u>**
	  o **<u>an entity to provide information that enables users of consolidated financial statements to understand the composition of a group (as required by paragraphs 10(a)(i), B4(a) and B5-B6 of IFRS 12);</u>**
	  o **<u>detailed information subsidiaries that have non-controlling interests that are material to the reporting entity, including the name of the subsidiary (as required by paragraph 12 of IFRS 12);</u>**
	  o **<u>the name of each material joint arrangement or associate (as required by paragraph 21 of IFRS 12);</u>**
	  o **<u>for separate financial statements, a list of significant investments in subsidiaries, joint ventures and associates, including the name of those investees, the principal place of business (and country of incorporation, if different) of those investees. its proportion of the ownership interest (and its proportion of the voting rights, if different) held in those investees (as in paragraph 16 of IAS 27 Separate Financial Statements).</u>**
	• **<u>This was already noted in paragraph 107 of EFRAG Draft Comment Letter.</u>**
	• **Still, information about the amount of capital and reserves, and the profit or loss for the latest financial year of the undertaking concerned for which financial statements have been adopted is neither required in IFRS Standards nor in the ED.**

Article 17.1(h): Value of the shares subscribed	• For medium-sized and large undertakings and public-interest entities the Accounting Directive 2013/34/EU requires disclosures in respect of the number and the nominal value, or, in the absence of a nominal value, the accounting par value of the shares subscribed during the financial year within the limits of the authorised capital. • **This information is not required neither in the ED nor in IFRS Standards.** • **Both the ED and IFRS Standards are focused on the number of shares issued or shares outstanding. No disclosures on shares subscribed.**
Article 17.1(j): Existence of any participation certificates, convertible	• For medium-sized and large undertakings and public-interest entities the Accounting Directive 2013/34/EU requires disclosures in respect of the existence of any participation certificates, convertible debentures, warrants, options or

debentures, warrants, options or similar securities or rights	similar securities or rights, with an indication of their number and the rights they confer. • Extensive information is required in the ED and IFRS Standards on financial instruments, when material. • **However, neither the ED nor IFRS Standards specifically require disclosures on the existence of any participation certificates, convertible debentures, warrants, options or similar securities or rights, with an indication of their number and the rights they confer.** • **The IASB is currently considering improvements to the disclosures on financial instruments with characteristics of equity, including new disclosures on maximum possible increase in number of shares for instruments that could be settled by delivering own shares.**
Article 17.1(k): Any undertaking of which it is a member with unlimited liability	• For medium-sized and large undertakings and public-interest entities the Accounting Directive 2013/34/EU requires disclosures in respect of the name, the head or registered office and the legal form of each of the undertakings of which the undertaking is a member having unlimited liability. • **This information is not required neither in the ED nor in IFRS Standards.**
Article 17.1(l): Identification of the ultimate controlling party	• For medium-sized and large undertakings and public-interest entities the Accounting Directive 2013/34/EU requires disclosures of the name and registered office of the undertaking which draws up the consolidated financial statements of the largest body of undertakings of which the undertaking forms part as a subsidiary undertaking. • Similar information is required in the EU Accounting Directive, ED and IFRS Standards for the names. • **However, the information on the registered office of the ultimate controlling party that prepares consolidated financial statements is not required neither in the ED nor in IFRS Standards**.
Article 17.1(m): Identification of the direct controlling party	• For medium-sized and large undertakings and public-interest entities the Accounting Directive 2013/34/EU requires disclosures of the name and registered office of the undertaking which draws up the consolidated financial statements of the smallest body of undertakings of which the undertaking forms part as a subsidiary undertaking and which is also included in the body of undertakings referred to in point (l). • Similar information is required in the EU Accounting Directive, ED and IFRS Standards for the names. • **However, the information on the registered office of the immediate intermediate parent that prepares**

	(sub)consolidated financial statements is not required neither in the ED nor in IFRS Standards.
Article 17.1(n): Place where copies of the consolidated financial statements may be obtained, provided that they are available	• For medium-sized and large undertakings and public-interest, the Accounting Directive 2013/34/EU requires disclosures of the place where copies of the consolidated financial statements referred to in points (l) and (m) may be obtained, provided that they are available. • **This information is not required neither in the ED nor in IFRS Standards.**
Article 17.1(o): Proposed appropriation of profit or loss	• For medium-sized and large undertakings and public-interest entities the Accounting Directive 2013/34/EU requires disclosures of the proposed appropriation of profit or treatment of loss, or where applicable, the appropriation of the profit or treatment of the loss. • **This information is not required neither in the ED nor in IFRS Standards.**

Article 17.1(p): Arrangements that are not included in the balance sheet	• For medium-sized and large undertakings and public-interest entities the Accounting Directive 2013/34/EU requires disclosures of the nature and business purpose of the undertaking's arrangements that are not included in the balance sheet and the financial impact on the undertaking of those arrangements, provided that the risks or benefits arising from such arrangements are material and in so far as the disclosure of such risks or benefits is necessary for the purposes of assessing the financial position of the undertaking.
	• Extensive information is required in the ED and IFRS Standards on financial commitments, guarantees and contingencies.
	• <u>**However, when comparing with IFRS Standards, the ED does not include disclosures on:**</u>
	  ○ <u>**any current commitments or intentions to provide financial or other support to an unconsolidated subsidiary, including commitments or intentions to assist the subsidiary in obtaining financial support (as in paragraph 19D of IFRS 12)**</u>
	  ○ <u>**any contractual arrangements that could require the entity or its unconsolidated subsidiaries to provide financial support to an unconsolidated, controlled, structured entity, including events or circumstances that could expose the reporting entity to a loss (as in paragraph 19F of IFRS 12)**</u>
	• <u>**This was already noted in paragraph 108 and 109 of EFRAG Draft Comment Letter.**</u>

Article 18.1(a): Net turnover broken down by categories	• For large undertakings and public-interest entities the Accounting Directive 2013/34/EU requires disclosures of the net turnover broken down by categories of activity and into

of activity and into geographical markets	geographical markets, in so far as those categories and markets differ substantially from one another, taking account of the manner in which the sale of products and the provision of services are organised. • Similar information is required in the EU Accounting Directive, ED and IFRS Standards. • **However, both the ED and IFRS Standards only indicate categories that might be appropriate. They do not specifically require that the breakdown is by activity and geographical markets.**
Article 18.1(b): Details of payments made to auditors	• For large undertakings and public-interest the Accounting Directive 2013/34/EU requires disclosures of the total fees for the financial year charged by each statutory auditor or audit firm for the statutory audit of the annual financial statements, and the total fees charged by each statutory auditor or audit firm for other assurance services, for tax advisory services and for other non-audit services. • **This information is not required neither in the ED nor in IFRS Standards.**
Article 23: Exemptions from consolidation	• The Accounting Directive 2013/34/EU states that Member States may except medium-sized groups from the obligation to draw up consolidated financial statements and a consolidated management report, except where any affiliated undertaking is a public-interest entity. • Member States shall also exempt from the obligation to draw up consolidated financial statements and a consolidated management report of parents under certain conditions. • The IFRS Standards also provide exemptions, but they are different (consolidation exception for investment entities and consolidation exception under paragraph 4 of IFRS 10). • Any disclosures on the exemption from consolidation as defined in the Accounting Directive 2013/34/EU are not required neither in the ED nor in IFRS Standards.
Article 24.8:Consolidated financial statements shall be drawn up as at the same date as the annual financial statements of the parent undertaking	• The Accounting Directive 2013/34/EU requires that Consolidated financial statements shall be drawn up as at the same date as the annual financial statements of the parent undertaking. If not, an entity shall disclose that fact in the notes, the reasons given and disclose important events concerning the assets and liabilities, the financial position and the profit or loss of an undertaking included in a consolidation which have occurred between that undertaking's balance sheet date and the consolidated balance sheet date; • Under IFRS Standards and ED, it is assumed that the consolidated financial statements have the same date as the financial statements of the parent. The disclosures are focused instead on any difference in the reporting date of the financial statements of the parent and its subsidiaries.

	• **Thus, neither IFRS Standards nor ED request disclosures on when consolidated financial statements and the annual financial statements are prepared under a different date**
Article 24.11:Consolidated financial statements shall apply the same measurement bases as in its annual financial statements	• The Accounting Directive 2013/34/EU requires that an undertaking which draws up consolidated financial statements shall apply the same measurement bases as are applied in its annual financial statements. If not, an entity shall disclose that fact and the reasons given. • In accordance with paragraph 19 of IFRS 10 *Consolidated Financial Statements*, a parent shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances. • **However, neither IFRS Standards nor ED require that consolidated financial statements have to apply the same measurement bases as those applied in its annual financial statements. For example, in accordance with paragraph 15 of IAS 40 *Investment Property*, property may qualify as an investment property in the separate financial statements of an entity but not in the consolidated accounts.**
Article 25.3:Business combinations within a group	• For Business combinations within a group (when a EU Member State may permit or require the book values of shares held in the capital of an undertaking included in the consolidation to be set off against the corresponding percentage of capital only, provided that the undertakings in the business combination are ultimately controlled by the same party both before and after the business combination, and that control is not transitory), the resulting movements in reserves and the names and registered offices of the undertakings concerned shall be disclosed in the notes to the consolidated financial statements. • **No specific disclosures are required for Business combinations within a group in the ED or in IFRS Standards.**
Article 27.2 and 27.3: Equity accounting of associated undertakings – disclosures on the difference between the book value and the corresponding proportion of capital and reserves in that associated	• The Accounting Directive 2013/34/EU requires that when this Article is applied for the first time to an associated undertaking, that associated undertaking shall be shown in the consolidated balance sheet either at its book value or at an amount corresponding to the proportion of the associated undertaking's capital and reserves. In addition, the difference between the two has to be disclosed separately in the consolidated balance sheet or in the notes to the consolidated financial statements. • **This information is not required neither in the ED nor in IFRS Standards.**

Article 28.1: Number of employees	• The Accounting Directive 2013/34/EU requires that in the notes to the consolidated financial statements an entity discloses the following: o in disclosing the average number of employees employed during the financial year, there shall be separate disclosure of the average number of employees employed by undertakings that are proportionately consolidated; and • **This information is not required neither in the ED nor in IFRS Standards (as proportion consolidation is not allowed under IFRS Standards – please see above in step 1 on options not allowed in IFRS Standards).**
Article 28.3: The filing of the statement, or its omission, shall be disclosed in the notes to the consolidated financial statements	• Member States may allow the information required by points (a) to (d) of paragraph 2 (*transactions with related parties, number of employees and emoluments/advance/credits given to management*) to take the form of a statement filed in accordance with Article 3(3) of Directive 2009/101/EC. (“The statement shall be filed in electronic format”). • The filing of such a statement, or its omission, shall be disclosed in the notes to the consolidated financial statements. • **This information is not required neither in the ED nor in IFRS Standards.**
Article 32.2: Other publication requirements	• The Accounting Directive 2013/34/EU requires that if the annual financial statements are not published in full, the abridged version of those financial statements, which shall not be accompanied by the audit report, shall: a) indicate that the version published is abridged; b) refer to the register in which the financial statements have been filed or where the financial statements have not yet been filed, disclose that fact; c) disclose whether an unqualified, qualified or adverse audit opinion was expressed by the statutory auditor or audit firm, or whether the statutory auditor or audit firm was unable to express an audit opinion; d) disclose whether the audit report included a reference to any matters to which the statutory auditor or audit firm drew attention by way of emphasis without qualifying the audit opinion. • **This information is not required neither in the ED nor in IFRS Standards.**
Article 37 and 39: Exemptions	• The Accounting Directive 2013/34/EU provides exemptions (under certain conditions) concerning the content, auditing, publication of the annual financial statements, the management report and publication of the profit and loss account.

	• Such exemptions do not exist in IFRS Standards. Therefore, this information is not required neither in the ED nor in IFRS Standards.

38 Finally, the EFRAG Secretariat highlights that there are additional EU accounting rules to be applied when preparing IFRS financial statements. That is, when IFRS standards do not include specific disclosures that are required by the AD, such disclosures should be required by the national accounting laws and regulations that transpose the AD (and be an added to IFRS financial statements).

Questions for EFRAG TEG

39 Does EFRAG TEG agrees with EFRAG Secretariat analysis?

40 Are there any other disclosures not identified by the EFRAG Secretariat that are missing in the ED and imply losing disclosures that are required by both the AD and IFRS Standards?

41 Do you agree to issue this study together with EFRAG Final Comment Letter as a basis for EFRAG request for additional disclosures in the ED?

CHAPTER 3: UPDATED OVERVIEW OF THE USE OF OPTIONS PROVIDED IN THE IAS REGULATION (1606/2002) IN THE EU

Introduction

42 The EFRAG Secretariat consulted national standard setters on whether the EC Staff Working Document Overview of the use of options provided in the EU Regulation 1606/2002 is up-to-date (last updated in December 2018 under the fitness check on public reporting by companies). (Please see Chapter 3 for details).

Step 3: Updated overview of the use of options provided in the IAS Regulation (1606/2002) in the EU

43 The EFRAG Secretariat received the following feedback from EU national standard setters:

Country	Response
Austria	No change
Cyprus	No change
Czechia	No change
Denmark	No change
France	No change
Germany	No change
Lithuania	No change
Luxembourg	No change
Netherlands	No change
Romania	Minor correction
Slovenia	Corrections
Spain	No change
Sweden	No change
Norway (EEA)	Not included in previous table

44 **Slovenia** highlighted a number of cases where IFRS are required to be applied which were not mentioned in the EC Staff Working Document Overview. The footnote was also updated to reflect the conditions of application of IFRS.

45 **Romania** highlighted that for listed undertakings, IFRS is not required in the annual financial statements of financial – insurance undertakings.

46 **Norway** provided detailed information on the options used in accordance with Article 5 of EU Regulation 1606/2002.

47 The updated table can be found in Appendix 1 - Updated overview of the use of options provided in the IAS Regulation (1606/2002) in the EU.

Questions for EFRAG TEG

48 Does EFRAG TEG has any comments?

APPENDIX 1 - Updated overview of the use of options provided in the IAS Regulation (1606/2002) in the EU

Overview of the use of options provided in the IAS Regulation (1606/2002) in the EU as at December 2021

	Listed Undertakings								Other Undertakings													
	Annual Financial Statements								Consolidated Financial Statements						Annual Financial Statements							
	IFRS Permitted				IFRS Required				IFRS Permitted		IFRS Required				IFRS Permitted				IFRS Required			
Type of company	Financial			Non-financial	Financial			Non-financial			Financial			Non-financial	Financial			Non-financial	Financial			Non-financial
Country	Bank	Insurance	Other		Bank	Insurance	Other		Financial	Non-financial	Bank	Insurance	Other		Bank	Insurance	Other		Bank	Insurance	Other	
Austria									Yes													
Belgium							Yes		Yes		Yes										Yes	
Bulgaria	Yes								Yes						Yes							
Cyprus					Yes						Yes								Yes			
Czech Republic					Yes				Yes						(1)							
Germany	(2)								Yes						(2)							
Denmark				(1)				(6)	Yes									Yes				
Estonia					Yes				Yes		Yes							Yes	Yes			
Greece					Yes				Yes		Yes			(5)				Yes	Yes			(5)
Spain									Yes		(3)											
Finland	Yes		Yes						Yes						(4)							
France									Yes													
Croatia					Yes						Yes			(5)				(1)	Yes			(5)
Hungary					Yes				Yes							Yes		(1)	Yes		Yes	
Ireland	Yes								Yes						Yes							
Italy					Yes	(6)	Yes		Yes			Yes		(9)	Yes		Yes					(9)
Lithuania				Yes	Yes					Yes	Yes							Yes	Yes			
Luxembourg	Yes								Yes						Yes							
Latvia				Yes	Yes			(7)		Yes	Yes							Yes	Yes			
Malta					Yes				Yes		Yes			(8)				Yes	Yes			(8)
Netherlands	Yes								Yes						Yes							
Poland	Yes								(10) or (11)		Yes				(10) or (11)							
Portugal				(1)	Yes	(6)				Yes	Yes							(1)	Yes			
Romania					Yes		Yes	Yes	Yes		Yes		Yes						Yes		Yes	(5)
Sweden									Yes		(12)											
Slovenia			Yes	Yes	Yes	Yes	(13)	(13)			Yes	Yes	Yes	Yes			Yes		Yes		(13)	(13)
Slovakia	Yes				Yes	(5)	Yes	(5)			Yes						Yes		Yes	(5)	Yes	(5)
Norway (EEA)			Yes		Yes				Yes		Yes						Yes		Yes			

No changes

Footnotes

(1) If the consolidated financial statements are preared in accordance with IFRS Standards

(2) Only in adition to financial statements prepared in accordance with National GAAPs

(3) Groups in which there's a listed undertaking

(4) If mandatory audit

(5) Public interest entities

(6) If no IFRS consolidated financial statements are published

(7) Issuers listed on the Baltic Main List

(8) Large and regulated entities

(9) Entities listed on a non regulated market

(10) Subsidiaries of a group in which parent or higher level parent prepares consolidated financial statements under IFRS

(11) Entities having filed or intending to file for amission to public trading

(12) IFRS mandated by the Financial Supervisory Authority

(13) If consolidated financial statements under IFRS are required by law