

STAFF PAPER

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Accounting Standards Advisory Forum

Project	Disclosure Initiative— <i>Subsidiaries without Public Accountability: Disclosures</i>
Paper topic	Interaction between local regulations and the proposed IFRS Accounting Standard

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Purpose of this session

1. The purpose of this session is to discuss with, and ask, ASAF members feedback on the interaction between local regulations and the proposed IFRS Accounting Standard (draft Standard) set out in the International Accounting Standards Board's (IASB) [Exposure Draft *Subsidiaries without Public Accountability: Disclosures*](#) (Exposure Draft).

Question to ASAF members

2. ASAF members are asked:
 - Do you see any challenges that might arise in your jurisdiction on adopting the draft Standard that the IASB can address in finalising its proposals?

Structure of the paper

3. This paper is structured as follows:
 - (a) overview of the project (paragraphs 4–11);
 - (b) key messages from feedback on the Exposure Draft (paragraphs 12–17);
 - (c) update on IASB discussions (paragraphs 18–20);
 - (d) feedback on interaction of the proposals with local regulations (paragraph 21);
and
 - (e) question for ASAF members (paragraphs 22–23).

Overview of the project

Why the IASB added the project to its Work Plan

4. The Exposure Draft sets out a proposal for a new IFRS Accounting Standard (draft Standard). The objective of the draft Standard is to permit a subsidiary (an eligible subsidiary) to apply reduced disclosure requirements based on the requirements in IFRS Accounting Standards¹ provided that:
 - (a) the subsidiary does not have public accountability; and
 - (b) its ultimate or any intermediate parent produces consolidated financial statements available for public use that comply with IFRS Accounting Standards.
5. The IASB added the project the *Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures* to its 2017–2021 Work Plan based on feedback to the Request for Views: *2015 Agenda Consultation*. Respondents to the Request for Views asked that the IASB permit subsidiaries to apply reduced disclosure requirements based on IFRS Accounting Standards.
6. Respondents to the Request for Views said that applying the *IFRS for SMEs* Accounting Standard is unattractive to subsidiaries because there are recognition and measurement

¹ For purposes of this paper, IFRS Accounting Standards refers to IFRS Accounting Standards excluding the *IFRS for SMEs* Accounting Standard.

differences between the *IFRS for SMEs* Accounting Standard and IFRS Accounting Standards. For consolidation purposes, subsidiaries that report to a parent that applies IFRS Accounting Standards would prefer to apply reduced versions of the disclosure requirements in IFRS Accounting Standards to their own financial statements.

Approach to developing the proposed disclosure requirements

7. In developing the proposed disclosure requirements, the IASB started by using the disclosure requirements of the *IFRS for SMEs* Accounting Standard because:
 - (a) these disclosures are reduced from IFRS Accounting Standards; and
 - (b) subsidiaries that are eligible to apply the draft Standard may also apply the *IFRS for SMEs* Accounting Standard.
8. In developing the proposed disclosure requirements in the draft Standard, the IASB sought to save time and resources by leveraging the work it had already completed when developing the disclosure requirements in the *IFRS for SMEs* Accounting Standard. Therefore, if the recognition and measurement requirements in IFRS Accounting Standards and the *IFRS for SMEs* Accounting Standard are:
 - (a) the same—the IASB used the disclosure requirements from the *IFRS for SMEs* Accounting Standard in the draft Standard, making amendments to reflect language differences (minor tailoring).
 - (b) different—the IASB created newly reduced versions of the disclosure requirements in IFRS Accounting Standards by applying the same principles it used when it developed the disclosure requirements in the *IFRS for SMEs* Accounting Standard (set out in paragraph BC157 of the Basis for Conclusions of the *IFRS for SMEs* Accounting Standard).
9. The *IFRS for SMEs* Accounting Standard requires fewer disclosures than IFRS Accounting Standards because the disclosure requirements are intended for non-publicly accountable entities (NPAEs). Users of NPAEs' financial statements have different information needs from users of publicly accountable entities' financial statements. By using the disclosure requirements in the *IFRS for SMEs* Accounting Standard, or by applying the same simplification principles that were previously used to create those reduced disclosures, the IASB saved time and resources.

10. The IASB can be satisfied that the disclosures created using this approach are fit for purpose because the *IFRS for SMEs* Accounting Standard works well in practice and has been subject to two comprehensive reviews. Therefore, the IASB can be confident that any newly reduced disclosure requirements that it has created for the draft Standard using the same approach will meet user needs.
11. If the draft Standard becomes a final IFRS Accounting Standard, the IASB has tentatively decided to consider amendments to the Standard when it publishes an exposure draft of a new or amended IFRS Accounting Standard.

Key messages from feedback on the Exposure Draft

12. In April 2022, the IASB discussed the feedback from [comment letters](#) and [outreach events](#) on the Exposure Draft.
13. Most respondents agreed with the objective of the draft Standard. Many reiterated the expected benefits of the proposals—reducing costs and simplifying the preparation of financial statements.
14. Respondents had mixed views on the proposed scope of the draft Standard. Although, some respondents agreed with the proposed scope of the draft Standard, many respondents suggested a wider scope allowing more entities to apply the draft Standard. However, respondents had different views on what the scope should be. Some respondents also suggested that the IASB considers widening the scope at a later stage, for example, after the draft Standard has been effective for a period of time².
15. Many respondents agreed with the IASB’s approach to developing the proposed disclosure requirements in the draft Standard. Some respondents had concerns about how the proposed disclosure requirements were developed and the relationship between the draft Standard and the *IFRS for SMEs* Accounting Standard.
16. Many respondents provided comments on the proposed disclosure requirements of the draft Standard. These comments were wide-ranging across different IFRS Accounting Standards.

² See [May 2022 IASB Update](#).

17. There were mixed views on the structure of the draft Standard. Many agreed that the draft Standard should be a separate IFRS Accounting Standard and that disclosure requirements should be organised by Standard. However, many disagreed with including footnotes in the main body of the draft Standard to identify those disclosure requirements in other IFRS Accounting Standards that continue to apply.

Update on IASB discussions

18. In May 2022, the IASB discussed whether the proposed scope of the draft Standard is appropriate for the purposes of finalising the draft Standard. In that meeting, the IASB tentatively decided to³:
- (a) confirm the scope as proposed in the draft Standard; and
 - (b) review that scope after the draft Standard has been finalised, possibly during the post-implementation review.

The IASB also tentatively decided to provide guidance to improve understandability of the description of ‘public accountability’. The IASB will continue this discussion at its June 2022 meeting.

19. In June 2022, the IASB will decide the direction of the project and discuss a plan for redeliberating the proposals in the Exposure Draft. In that meeting, the staff recommend that the IASB proceeds with its proposals and develop a final IFRS Accounting Standard. If the IASB agrees, the staff also recommend topics for redeliberation.
20. One of the topics identified for discussion on IASB’s future redeliberation is the interaction of the proposals in the draft Standard with local regulations. Some respondents to the Exposure Draft noted concerns about how the draft Standard interacts with local regulations (see paragraph 21).

³ See [May 2022 IASB update](#).

Feedback on interaction of the proposals with local regulations

21. Feedback on the Exposure Draft highlighted concerns about the interaction of the draft Standard with local regulations and that the IASB should consider whether it can address these issues, particularly:
- (a) how the scope of the draft Standard interacts with local regulations. For example, feedback was that some jurisdictions have a notion of a ‘public interest entity (PIE)’. In these jurisdictions, entities that are PIEs are required to apply IFRS Accounting Standards. However, some entities that are PIEs would be eligible to apply the draft Standard because draft Standard is an IFRS Accounting Standard. Some regulators, in these jurisdictions, would prefer PIEs to continue to apply full IFRS Accounting Standards instead of the draft Standard.
 - (b) how the form of the draft Standard would interact with a jurisdiction’s endorsement process (or the absence thereof) in adopting the [draft] Standard. Feedback suggests that adoption of the draft Standard depends on a jurisdiction’s endorsement process.
 - (c) whether to extend the eligibility of entities that can apply the draft Standard to those within groups using local GAAPs that might be deemed as equivalent of IFRS Accounting Standards. The proposal in the draft Standard is that to be eligible to apply the draft Standard, a subsidiary should have a parent, ultimate or intermediate, that produces consolidated financial statements complying with IFRS Accounting Standards.
 - (d) how to apply requirements in the draft Standard when a jurisdiction has carved-out some requirements in IFRS Accounting Standards. For example, feedback was that some jurisdictions do not apply IFRS 14 *Regulatory Deferral Accounts*. However, the draft Standard proposes reduced disclosure requirements for IFRS 14.

Question for ASAF members

22. Given the feedback in paragraph 21, the staff is asking ASAF members about the interaction of the draft Standard with local regulations to understand if there are any challenges that might arise on adoption that the IASB can address in developing the final Standard.
23. The information gathered will be used in the IASB's deliberations on the feedback to the Exposure Draft.

Question for ASAF members

Do you see any challenges that might arise in your jurisdiction on adopting the draft Standard that the IASB can address in finalising its proposals?