

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

Subsidiaries without Public Accountability Cover Note

Objective

- 1 The objectives of the session are:
 - (a) To provide an overview of the upcoming presentation during the ASAF meeting, which includes:
 - (i) the current status of the project *Subsidiaries without Public Accountability* and an overview of the forthcoming Standard;
 - (ii) information on how the Subsidiaries Standard will be updated for new or amended standards proposed or issued after the cut-off date 28 February 2021 and how it will be kept up-to-date in the future;
 - (b) To discuss the educational material of the forthcoming Standard; and
 - (c) To discuss next steps considering the publication of the forthcoming Standard in May 2024.

Background

Exposure Draft Consultation

- 2 On 26 July 2021 the IASB published [the ED](#) *Subsidiaries without Public Accountability* with the objective of developing a reduced-disclosure IFRS Accounting Standard that would apply on a voluntary basis to subsidiaries without public accountability. The description of public accountability, contained in paragraphs 7 and 8 of the ED, is from paragraphs 1.3 and 1.4 of the IFRS for SMEs Standard.
- 3 EFRAG published its [Draft Comment Letter \(DCL\)](#) on 30 September 2021 which was open for comments until 26 January 2022. In its DCL, EFRAG welcomed the ED and the IASB's efforts to reduce disclosure requirements for subsidiaries without public accountability. EFRAG also cautiously agreed with the IASB's proposed scope, but recognised the support for the alternative view expressed by the IASB board member Françoise Flores in the Basis for Conclusions of the ED.
- 4 EFRAG then embarked on an extensive programme of outreach events and stakeholder meetings, in partnership with various organisations. EFRAG also conducted research

activities that led to the publication of two briefings focused on the applicability of the IASB's ED in the European Union.

- (a) [Subsidiaries without Public Accountability: Disclosures. Who would be able to apply it in the EU?](#) focused on the scope of the IASB's project from an EU perspective; and
- (b) [EFRAG Secretariat study on compatibility of the EU Accounting Directive with the IASB's Exposure Draft](#) included a two-step comparison of disclosure requirements in the ED and the EU Accounting Directive.

- 5 In general, participants in outreach events and respondents to EFRAG DCL welcomed the IASB's ED and acknowledged that the IASB's efforts would ease financial reporting for eligible subsidiaries, while meeting the reasonable needs of the users of financial statements. When referring to the scope, European constituents expressed mixed views, in particular on whether and to what extent the scope should be widened. European constituents also raised questions and some concerns on the interaction of the IASB's proposals with EU accounting law.
- 6 After consulting its constituents, EFRAG published its [Final Comment Letter \(FCL\)](#) on 25 February 2022, where it reiterated its initial support for the IASB's project and highlighted the requests from many constituents to widen its scope. However, as there was no clear consensus whether and to what extent the scope should be extended, EFRAG suggested that the IASB continues with the current scope of the project, but in parallel assesses the possibility of a scope extension. In addition, EFRAG proposed that the IASB considers clarifying the concept of holding assets in a fiduciary capacity before issuing a final standard.
- 7 Alongside the concerns expressed about the term 'fiduciary capacity', EFRAG expressed concerns that the IASB uses the concept 'public accountability' when defining the scope of this project. This is because its meaning is not often entirely clear for stakeholders (these concepts are not currently being used in IFRS Accounting Standards available for use in the EU), and it could be in conflict with existing legal terms used in different EU Member States. For example, National Standard Setters have expressed concerns that the notion of public accountability is different from the notion of Public Interest Entities, a similar term used in the European Union accounting law. Therefore, the IASB's proposals in this project are likely to also put pressure on the definition of 'public accountability'. Considering this, EFRAG would welcome further application guidance in this area.
- 8 On 14 April 2022, EFRAG issued a [Feedback Statement](#), which summarised the main comments received by EFRAG on its DCL to the IASB ED and explained how those comments were considered in EFRAG's FCL.
- 9 Feedback received by the IASB from comment letters and outreach events indicated that most respondents agreed with the objective of the draft Standard. However, 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. Nonetheless, respondents had different views on what that wider 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 time.

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Redeliberation Phase

- 10 The key topics discussed by the IASB until now are summarised in the table below. All topics, including sweep issues have already been discussed by EFRAG FR TEG (please refer to Appendix 1 for more details).
- 11 In July 2023, the IASB concluded its decision-making on the project and gave the permission to start the balloting process of the Standard.

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| Objective IASB October 2022 | <ul style="list-style-type: none"> The IASB discussed the proposed objective of the draft Standard. |
| Scope of the project IASB September 2022 and IASB November 2022 | <ul style="list-style-type: none"> The IASB discussed the feedback received on the proposed scope of the draft Standard and discussed whether it should confirm the proposed scope, including the proposal that the parent’s consolidated financial statements are ‘available for public use’. |
| Structure of the draft standard IASB October 2022 | <ul style="list-style-type: none"> The IASB discussed the structure of the draft Standard and whether it should modify, retain or omit Appendix A and footnotes related to disclosure requirements that remain applicable proposed in the draft Standard. |
| Approach to developing the proposed disclosure requirements IASB October 2022 | <ul style="list-style-type: none"> The IASB discussed the feedback on the approach to developing the proposed disclosure requirements of the draft Standard and discussed whether it should modify it to ensure that the language used in the disclosure requirements are the same as IFRS Accounting Standards. |
| Addressing comments on proposed disclosure requirements IASB October 2022 | <ul style="list-style-type: none"> The IASB discussed the process and how the IASB staff should analyse the comments received on the proposed disclosure requirements in the draft Standard. |
| Others IASB December 2022 | <ul style="list-style-type: none"> The IASB discussed other topics such as IFRS Accounting Standards without reduced disclosure requirements, proposed reduced disclosure requirements in IAS 34 and a proposed statement of compliance |
| Maintenance of the Standard: IASB January 2023 | <ul style="list-style-type: none"> The IASB discussed when to update the Standard for new disclosure requirements or amendments to disclosure requirements arising from new IFRS Accounting Standards or amendments to IFRS Accounting Standards. |
| Transition matters— interactions with IFRS 1 and changes in accounting policies IASB January 2023 | <ul style="list-style-type: none"> The IASB discussed the interaction between IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> and the Standard and whether electing or revoking an election to apply the draft Standard requires an eligible subsidiary to apply the requirements on changes in accounting policies in IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> |
| Relationship of the new IFRS Accounting Standard with the IFRS for SMEs Accounting Standard IASB March 2023 | <ul style="list-style-type: none"> The IASB considered the feedback received on the interaction between the reduced disclosure Standard (based on IFRS for SMEs and IFRS Accounting Standards) and the IFRS for SMEs. In addition, the IASB discussed the way forward on the relationship of the new reduced disclosure IFRS Accounting Standard with the IFRS for SMEs. |

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| | <ul style="list-style-type: none"> The discussion focused also on whether there should be a separate assessment of the costs and benefits for subsidiaries (applying the reduced disclosure Standard) and for SMEs (applying the IFRS for SMEs). |
| <p>Updating the language of the disclosure requirements IASB April 2023</p> | <ul style="list-style-type: none"> The IASB discussed the language and structure of the disclosure requirements and whether they should be the same as in IFRS Accounting Standards. |
| <p>Proposed disclosure requirements IASB April 2023, IASB May 2023 and IASB June 2023</p> | <ul style="list-style-type: none"> The IASB considered the feedback received on the proposed disclosure requirements and discussed whether it was necessary to revise any of the proposed disclosure requirements in the ED. |
| <p>Disclosure requirements about transition in other IFRS Accounting Standards IASB May 2023</p> | <ul style="list-style-type: none"> The IASB discussed whether the disclosure requirements in a new or amended IFRS Accounting Standard, about the entity's transition to that Standard, would remain applicable to an eligible subsidiary that applies the draft Standard. |
| <p>Paragraph 16 of the draft Standard IASB May 2023</p> | <ul style="list-style-type: none"> The IASB discussed whether to provide guidance on or update paragraph 16 of the draft Standard (stating that an entity need not disclose immaterial information and need to consider whether to disclose additional information) and whether to include an overall disclosure objective. |
| <p>New disclosure requirements in IFRS Accounting Standards IASB May 2023</p> | <ul style="list-style-type: none"> The IASB discussed whether disclosure requirements in IFRS Accounting Standards that have been issued since development of the draft Standard apply to eligible subsidiaries applying the new Standard. |
| <p>Effective date and transition IASB July 2023</p> | <ul style="list-style-type: none"> The IASB discussed the effective date and transition provisions for the new Standard. The IASB also discussed the interaction between the new Standard and the Standard being developed based on the ED <i>General Presentation and Disclosures (Primary Financial Statements)</i>. |
| <p>Due process IASB July 2023</p> | <ul style="list-style-type: none"> The IASB discussed due process steps for developing the new Standard and whether to start the balloting process. |
| <p>Approach to maintenance IASB September 2023</p> | <ul style="list-style-type: none"> The IASB discussed its approach to maintenance of the new Standard. |
| <p>Sweep issues—updating the language of disclosure requirements IASB October 2023</p> | <ul style="list-style-type: none"> The IASB discussed sweep issues related to more judgemental changes to the disclosure requirement proposed in the ED resulting from implementing the modified approach discussed in October 2022. |
| <p>Project plan for the Catch-up Exposure Draft IASB November 2023</p> | <ul style="list-style-type: none"> The IASB received an update on the contents of the 'catch-up ED' for the disclosure requirements in new or amended Standards issued after 28 February 2021 that will be discussed by the IASB in the first half of 2024. |

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| <p>Sweep issues—approach to updating the Exposure Draft for the disclosure requirements in the PFS Standard</p> <p>IASB December 2023</p> | <ul style="list-style-type: none"> The IASB discussed the approach on how to update the Standard for including the disclosure requirements of the <i>Presentation and Disclosure in Financial Statements</i> (PFS Standard). |
| <p>Sweep issues—updating the language of disclosure requirements</p> <p>IASB January 2024</p> | <ul style="list-style-type: none"> The IASB discussed sweep issues related to more judgemental changes to the disclosure requirement proposed in the ED resulting from implementing the modified approach discussed in October 2022. |

Latest developments

Issuance of the Standard by the IASB

- 12 The IASB has already discussed all the sweep issues that arose in the drafting process, as summarised in the table above.
- 13 The IASB is expected to issue the new Standard *Subsidiaries without Public Accountability: Disclosures* in May 2024. The Standard will be effective for annual periods beginning on or after 1 January 2027, with early application permitted. Some [educational material](#) on the new Standard have been made available by the IASB.
- 14 The deliberation process of the project *Updating the Subsidiaries without Public Accountability: Disclosures (the ‘Catch-up’ Exposure Draft)* has started. The IASB will update the forthcoming Subsidiaries Standard for all new or amended standards proposed or issued after the cut-off date 28 February 2021. The ‘catch-up’ ED is expected in Q3 2024. The IASB intends to progress and complete the project in a timely manner to support the implementation of IFRS 19 by preparers.

Latest EFRAG discussions

- 15 As stated above, EFRAG FR TEG has discussed all key topics from the redeliberation phase and sweep issues. EFRAG FR TEG members generally agreed with the IASB proposals in the ED. However, they regretted that some of the additional disclosure requirements proposed in EFRAG’s FCL were not included, especially those set out in the EU Accounting Directive.
- 16 In addition, members welcomed the IASB’s decision of updating of the language of the disclosure requirements in the ED (IFRS for SMEs) to be the same as IFRS Accounting Standards. They considered that without being provided with the final wording of the Standard, it would be difficult to evaluate whether the proposed changes of aligning the language would introduce new or different disclosure requirements to eligible subsidiaries compared to those included in the ED.
- 17 EFRAG FRB members generally supported the objective of the project of striking a balance between saving costs for preparers (reduced burden of applying the disclosure requirements) and providing useful information to users at the subsidiary level. The EFRAG FRB has requested the EFRAG Secretariat to update the study on compatibility of the EU Accounting Directive when the Subsidiaries Standard is published (please refer to 4(b)), to better understand the impact.

- 18 The European Commission has not provided a negative indication for potential endorsement of the Standard, and therefore the EFRAG Secretariat will start considering potential activities for its endorsement preparatory work. The EFRAG Secretariat considers that the first steps would involve updating the briefings mentioned in paragraph 4 above. It would be very important to illustrate immediately after the publication of the Standard, who would be able to apply it in the EU and the interaction of the forthcoming Standard with the Accounting Directive, for supporting the discussions of a potential endorsement in the EU, considering the diversity across EU member states.
- 19 The EFRAG Secretariat recommends organising an educational session together with the IASB (joint event mainly for preparers), in order to improve the understanding of the standard and its requirements. This will allow a better assessment of the impact of the implementation and improve for EFRAG the information available for the assessment of the endorsement criteria. The event would be interactive and should allow participants to address questions. The event could be organised between the end of June and the beginning of September 2024.

EFRAG Secretariat analysis of the material provided for the ASAF meeting

- 20 The EFRAG Secretariat welcomes the educational material published the IASB, and highlights the importance of explaining the structure of the upcoming Standard to support the implementation. The scope of the upcoming Standard will depend on the local legal requirements across EU Members States, as ‘public accountability’ is differently defined across jurisdictions.
- 21 The EFRAG Secretariat also notes that the interaction of the Subsidiaries Standard with the upcoming IFRS 18 has to be properly understood, and in particular the potential impact of early application of the disclosure requirements has to be illustrated (e.g., IAS 1 instead of IFRS 18, when only the Subsidiaries Standard is early applied).
- 22 The educational material should be provided in an understandable way for eligible subsidiaries. The audience for the educational sessions might change from the group accounting level to the subsidiaries level. Both groups should be integrated in the educational material to ensure consistent application.

Next steps

- 23 The EFRAG Secretariat to propose an overview of the potential endorsement activities, which will be presented and discussed at a future EFRAG FR TEG meeting.

Agenda Papers

- 24 In addition to this cover note, the agenda paper 04-02 – IASB Presentation - *Overview of the Subsidiaries Standard* - is provided for this session.

Questions for EFRAG FR TEG-CFSS

- 25 Does EFRAG FR TEG-CFSS have any comments on the IASB's educational material on the new Standard?
- (a) What kind of educational material should the IASB focus on?
 - (b) What are the key areas to focus on?
 - (c) Should the IASB issue stakeholder-specific educational material?
- 26 Does EFRAG FR TEG-CFSS have any views on the potential endorsement activities that the EFRAG Secretariat should consider?

Appendix 1 – Redeliberation Phase – EFRAG FR meetings

- 1 In July 2022, the IASB discussed the Interaction between local regulations and the proposed IFRS Accounting Standard at the Accounting Standards Advisory Forum (ASAF) meeting. In preparation for that meeting, the EFRAG FR TEG-CFSS members discussed this project on 28 June 2022 (summary of feedback received can be found [here](#)).
- 2 On [14 September 2022](#), the EFRAG FR TEG-CFSS members received an update, discussed the use of the concept 'available for public use', the proposed disclosure requirements and the structure of the draft IFRS Accounting Standard.
- 3 On [18 October 2022](#), EFRAG FRB considered whether EFRAG should comment on the proposed clarifications to the definition of 'public accountability' included in Question 1 of the IASB Exposure Draft Third edition of the IFRS for SMEs Accounting Standard. After discussing this issue, EFRAG FRB members decided not to comment on the Question 1 of the IASB ED as there was no consensus.
- 4 On [15 March 2023](#), the EFRAG FR TEG and EFRAG CFSS members received an update on the IASB's latest tentative decisions and discussed the expected benefits and costs of the IASB's proposals for stakeholders in their jurisdiction.
- 5 In general, EFRAG FR TEG and EFRAG CFSS members supported the direction of the redeliberations and recognised that this project would simplify and reduce the cost of financial reporting for eligible subsidiaries and their parents, even in jurisdictions that currently do not allow or require the use of IFRS Accounting Standards in the annual accounts (e.g., for international groups), while still providing relevant information to users of financial statements. One CFSS member reported that in his jurisdiction the applicability of IFRS for individual financial statements is currently being investigated and discussed.
- 6 On [30 March 2023](#), EFRAG FRB received an update on the IASB's latest decisions and generally agreed with the IASB's proposals. Some FRB members questioned the scope exclusion for the insurance industry. In addition, FRB highlighted the need to consider the interaction of the IASB's proposals with European legislation.
- 7 On [19 October 2023](#) EFRAG FR TEG received an update on the IASB's latest tentative decisions and generally agreed with the IASB's proposals although some of the disclosures proposed by EFRAG in its FCL were still missing. EFRAG FR TEG provided comments on the proposed disclosure requirements, on paragraph 16 of the ED regarding materiality, on the effective date, transition, maintenance, relationship with the PFS Standard and on the scope.
- 8 On [7 November 2023](#) EFRAG FRB received an update from the IASB on the status of the project and the decisions taken during the redeliberation phase. EFRAG FRB members reiterated the support for the project and highlighted several potential benefits for Europe. EFRAG FRB requested the EFRAG Secretariat to update the briefings in paragraph 4 above.
- 9 On 7 December 2023, EFRAG User Panel members provided their views on whether any disclosures, either in the EU Accounting Directive, or those requested by EFRAG in its FCL not incorporated in the ED are fundamental. EFRAG User Panel highlighted that overall the disclosures included in the Accounting Directive, and those requested by EFRAG in its FCL, are useful for users.

- 10 On [20 December 2023](#) EFRAG FR TEG received an update on the IASB's latest decisions and discussions related to the sweep issues discussed by the IASB in October and December 2023, and has discussed the IASB's project plan for the 'catch-up ED'. Some EFRAG FR TEG expressed concerns regarding the consequences of implementing the 'modified approach', which could result changes to the disclosure requirements for eligible subsidiaries, compared to the ones proposed in the ED. In addition, EFRAG FR TEG members highlighted the benefits of publishing the 'catch-up ED' as soon as possible, noting that one of the critical points was to include the RRA disclosure requirements in the 'catch-up ED'. Finally, EFRAG FR TEG raised some issues related to early adoption and the interaction with the PFS Standard.
- 11 On [15 February 2024](#) EFRAG FR TEG received an update on the IASB's latest decisions and discussions on the sweep issues related to updating the language of the disclosure requirements in the ED to implement the 'modified approach' (similar to 20 December EFRAG FR TEG meeting). EFRAG FR TEG members were in general supportive of the developments. However, members reiterated their concerns expressed in the December EFRAG FR TEG meeting regarding the consequences of implementing the 'modified approach', and noted the difficulty of assessing the impact of the changes, as decided by the IASB in January 2024, before seeing the final wording of the Standard.