

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG FR TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG FRB or EFRAG FR TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG 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 the EFRAG FR TEG members with the updated Briefing *Subsidiaries without Public Accountability: Disclosures. Who would be able to apply it in the EU* focusing on the scope of IFRS 19 in the EU landscape following the (expected 9 May) publication of IFRS 19 *Subsidiaries without Public Accountability: Disclosures* Standard in May 2024; and
 - (b) to agree the approval process for the second briefing *EFRAG Secretariat study on compatibility of the EU Accounting Directive with IFRS 19*.
- 2 The briefings should support the discussions in Europe regarding an endorsement request to be sent by the EC. The next discussion related to the topic in ARC is expected mid June 2024. Therefore, the proposal to publish an update for both briefings until mid June 2024 (before the ARC meeting is taking place).

Background

Exposure Draft Consultation

- 3 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.
- 4 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.
- 5 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.

- 6 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.
- 7 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.
- 8 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.
- 9 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.
- 10 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.

Redeliberation Phase

- 11 The key topics discussed by the IASB during the redeliberation phase and EFRAG's related discussions can be found in the redeliberation phase and Appendix of EFRAG paper [04-01 SWPA - Cover note - EFRAG FR TEG-CFSS 24-03-13](#).

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- 12 In July 2023, the IASB concluded its decision-making on the project and gave the permission to start the balloting process of the Standard.
- 13 The IASB issued the new Standard IFRS 19 *Subsidiaries without Public Accountability: Disclosures* on the 9th of 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 were made available by the IASB.

Next steps

- 14 The EFRAG Secretariat to publish the updated Briefing *Subsidiaries without Public Accountability: Disclosures. Who would be able to apply it in the EU*.
- 15 The EFRAG Secretariat to prepare the update for the second Briefing *EFRAG Secretariat study on compatibility of the EU Accounting Directive with the IFRS 19 Standard* for the FR TEG member's attention. The EFRAG Secretariat would like to agree the approval process. There could be a discussion of the briefing in the FR TEG meeting 4 June with follow up on changes to be made shortly after (updated version would be send to FR TEG members by 7 June with a request for input until 10 June cob. The alternative would be to work with written input only. The EFRAG Secretariat, proposes to use the first option as it can ensure the publication until 15 June 2024. To work with written input only, might not speed up the process, as the EFRAG Secretariat needs to analyse the changes to be made based on the final wording of the standard – IFRS 19.

Agenda Papers

- 16 In addition to this cover note, the agenda paper 03-02 – updated Briefing *Subsidiaries without Public Accountability: Disclosures. Who would be able to apply it in the EU* – is provided for this session.

Questions for EFRAG FR TEG-CFSS

- 17 Does EFRAG FR TEG have any comments on the updated Briefing provided within the agenda paper 03-02?
- 18 Does EFRAG FR TEG agree with the EFRAG Secretariat proposal to publish the updated Briefing?