IASB PUBLISHES EXPOSURE DRAFT - SUBSIDIARIES WITHOUT PUBLIC ACCOUNTABILITY: DISCLOSURES

INTERNATIONAL FINANCIAL REPORTING BULLETIN

2021/12

BDO

BACKGROUND

STATUS
Exposure Draft

ACCOUNTING IMPACT
Subsidiaries meeting the specified eligibility criteria may elect to apply reduced disclosure requirements as compared to the disclosure requirements of IFRS Standards while complying with the recognition, measurement and presentation requirements in IFRS Standards.

In response to the *Request for Views – 2015 Agenda Consultation*, stakeholders asked the IASB to permit a subsidiary reporting to a parent applying IFRS Standards in its consolidated financial statements to apply IFRS Standards with reduced disclosure requirements. Many such subsidiaries are not publicly accountable; but when applying IFRS Standards, they are required to provide the same disclosures as those designed for publicly accountable entities. Such subsidiaries may not opt to apply *IFRS for SMEs* as they are already required to report to their parent entities using IFRS Standards and IFRS for SMEs differs significantly from 'full' IFRS Standards. Considering this feedback, the IASB added a project to its research pipeline to provide reduced disclosure requirements for subsidiaries without public accountability.

On 26 July 2021, the IASB issued an Exposure Draft *Subsidiaries without Public Accountability: Disclosures* that proposes to permit eligible subsidiaries to apply reduced disclosure requirements with the recognition, measurement and presentation requirements in IFRS Standards.

The Exposure Draft may be accessed here. Comments on the Exposure Draft are requested by 31 January 2022.

PROPOSALS OF THE EXPOSURE DRAFT

Eligibility criteria

Under the proposals, an entity would be eligible to apply the proposed standard if it meets the eligibility criteria **at the end of the reporting period**.

The eligibility criteria are:

- The entity is a subsidiary (as defined in IFRS 10 *Consolidated Financial Statements*);
- The entity does not have public accountability; and
- The entity has an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Standards.

An entity has public accountability if:

- Its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market; or
- It holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.

An entity is permitted to elect to apply the proposed standard more than once. An entity that applied the proposed Standard in a prior period but not in the immediately preceding period may elect to apply it in the current period. e.g. Entity X (an entity eligible to apply the proposed standard) elected to apply the proposed standard in 20X1, but did not apply the proposed standard in 20X2 because its parent, Entity Y, ceased to apply IFRS Standards. In 20X3, Entity X was taken over by Entity Z that applies IFRS Standards. Entity X would be eligible to apply the proposed standard again in 20X3, provided it meets all the eligibility criteria.

Example of reduced disclosure requirements

The disclosures required under the proposed standard are listed with an accompanying Appendix, which includes all of the disclosures contained in IFRS Standards that would not be applicable.

For example, under the proposed standard, an entity that has transactions within the scope of IFRS 2 *Share-based Payment* would not apply the disclosure requirements in IFRS 2.44-52, which are extensive. Instead, an entity would disclose only the information contained in paragraphs 31-35 of the proposed standard, which include a description of share-based payment arrangements, the number and weighted average exercise prices of share options, how an entity measures the fair value of equity-settled share-based payment transactions and other general information about transactions in the scope of IFRS 2.

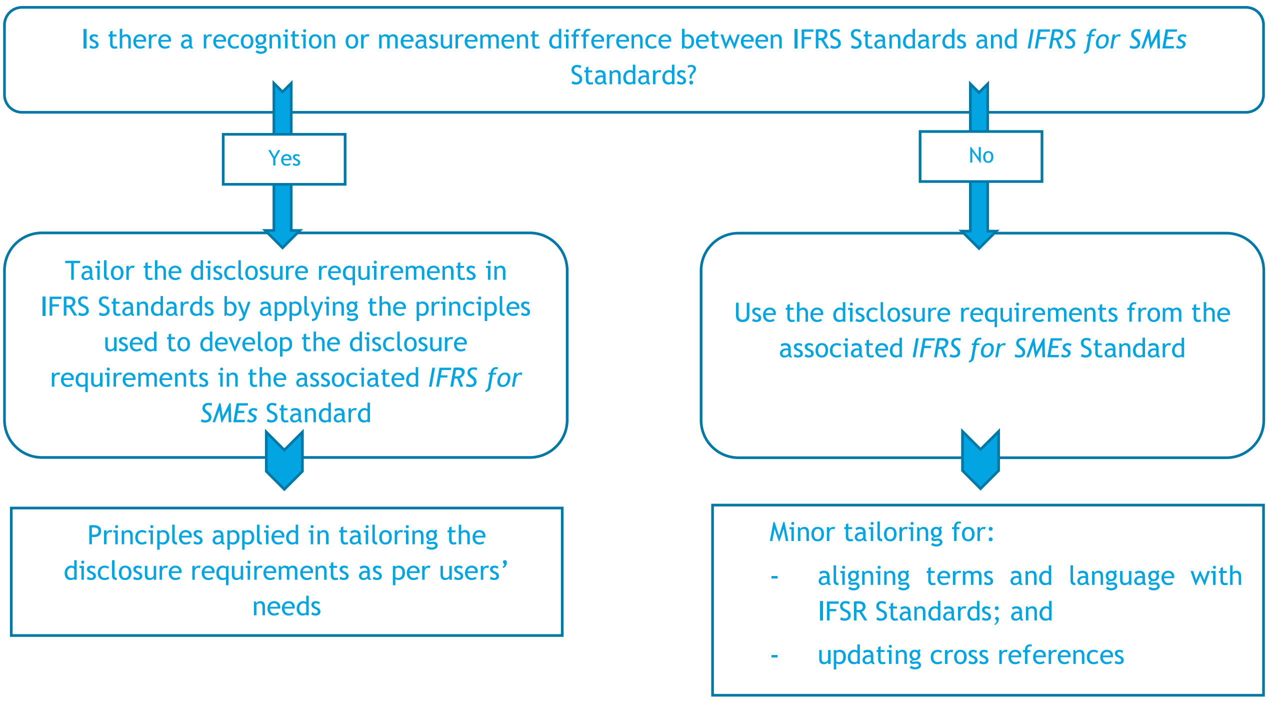
As an indication of the scope of the reduction in disclosure requirements, IFRS 2 currently contains 991 words in its disclosure requirements, whereas the proposed standard contains only 258 words relating to IFRS 2 disclosures.

Approach followed by the IASB in developing the disclosure requirements

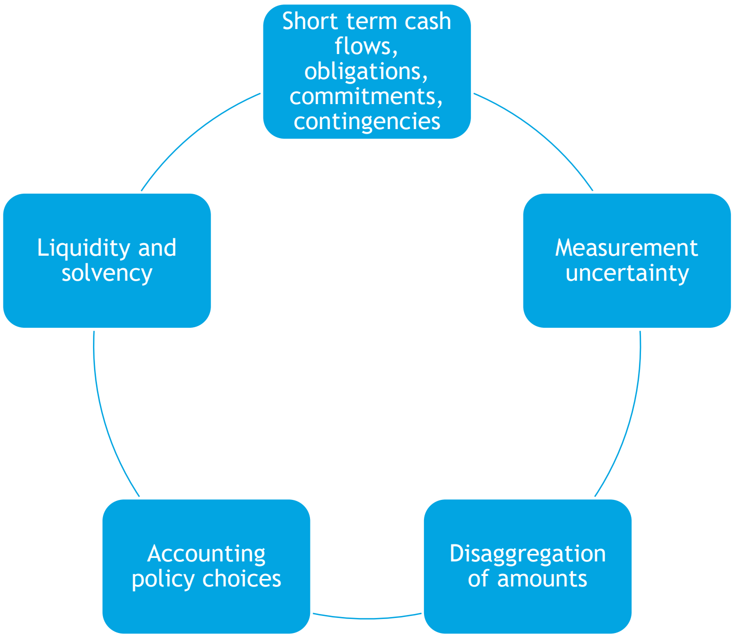
In developing the proposed disclosures, the IASB adopted the following approach:

a) Start with the disclosure requirements in *IFRS for SMEs* Standard; and

b) When the recognition and measurement requirements of the *IFRS for SMEs* Standard differ from those in the IFRS Standards, tailor the disclosure requirements by applying the principles for setting the disclosure requirements in the *IFRS for SMEs* Standard.



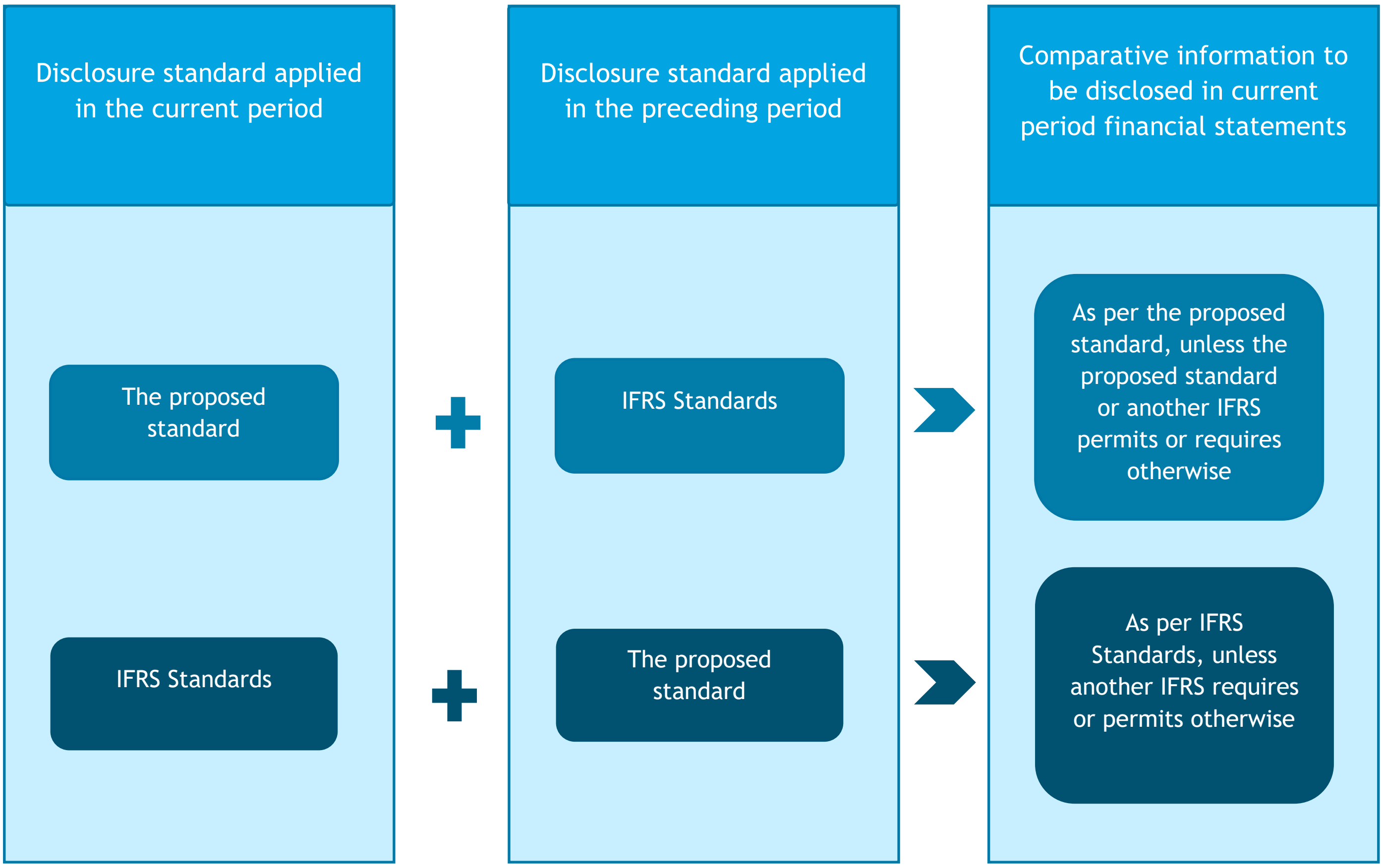
Principles Applied in Tailoring Disclosure Requirements



The disclosure requirements in IFRS 8 *Operating Segments*, IFRS 17 *Insurance Contracts* and IAS 33 *Earnings per Share* remain applicable and are not included in the proposed standard, meaning entities that are required to apply or elect to apply IFRS 8, IFRS 17 or IAS 33 would not receive any relief from the disclosure requirements of those IFRS Standards.

Comparative information

Comparative information in respect of the preceding period is to be disclosed for all amounts reported in the current period's financial statements, unless required or permitted otherwise by the proposed standard or another IFRS Standard.



Transition Requirements and Interaction with IFRS 1

The proposed standard does not contain any specific transition provisions. An entity applying the proposed standard in the current period, but not in the immediately preceding period would provide comparative information in respect of the preceding period for all amounts reported in the current period's financial statements, unless the proposed Standard or another IFRS Standard permits or requires otherwise.

Electing or revoking an election to apply the proposed Standard does not, on its own, result in an entity meeting the definition of a first-time adopter of IFRS Standards in IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

Scenario 1:

Entity applies *IFRS for SMEs* Standard

Entity applies IFRS Standards and elects to apply the proposed standard

In the financial statements for Year 2, the entity would:

- Apply IFRS 1
- Provide disclosures required by the proposed standard, including for comparative information

Scenario 2:

Entity applies IFRS Standards, but not the proposed standard

Entity applies IFRS Standards and elects to apply the proposed standard

In the financial statements for Year 2, the entity would:

- Not apply IFRS 1
- Provide disclosures required by the proposed standard, including for comparative information

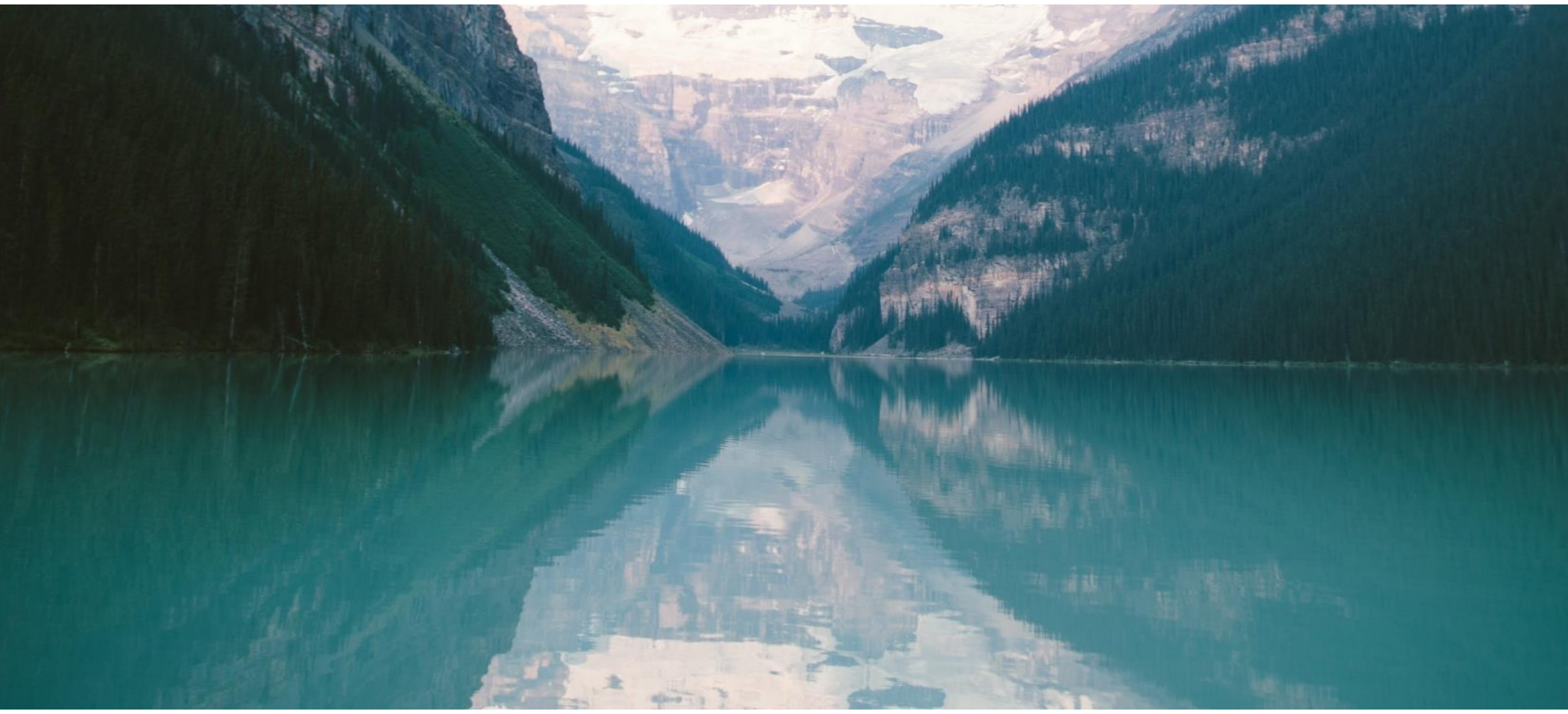
Scenario 3:

Entity applies IFRS Standards and the proposed standards

Entity continues to apply IFRS Standards, but revokes the election to apply the proposed standard

In the financial statements for Year 2, the entity would:

- Not apply IFRS 1
- Provide disclosures required by IFRS Standards, including for comparative information



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