ACCOUNTANCY EUROPE.

Mr. Andreas Barckow
IASB Chair
IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Mr. Jean-Paul Gauzès
President of the EFRAG Board
EFRAG
Square de Meeûs 35 B
1000 Brussels
Belgium

Submitted via website

Brussels, 24 January 2022

Subject: Exposure Draft: Subsidiaries without Public Accountability: Disclosures - Accountancy Europe comment letter

Dear Mr. Barckow

Dear Mr. Gauzès,

We are pleased to respond to the International Accounting Standards Board (IASB or the Board) Exposure Draft: Subsidiaries without Public Accountability: Disclosures (ED) and the European Financial Reporting Advisory Group (EFRAG)'s Draft Comment Letter (DCL) thereon.

Accountancy Europe has called in the past to better address small and medium entities (SME) needs in International Financial Reporting Standards (IFRS). We have always supported consistency between the recognition and measurement principles of IFRS for SMEs and those of IFRS Standards. Therefore, we welcome the objective of the ED and consider that eligible entities will benefit through applying the same recognition and measurements rules as IFRS Standards while preparing reduced disclosures.

Hereinafter we provide some main areas for the Board's consideration regarding the proposals in this ED.

Whilst we agree with limiting the scope eligibility to non-publicly accountable entities, we do not support it be limited to subsidiaries only. Instead, we support including other non-publicly accountable entities. We see no conceptual or practical difference between allowing a subsidiary to use the reduced disclosures and allowing other entities. We agree with the alternative view of the IASB Board member Ms Françoise Flores in this regard.

Accountancy Europe agrees with the approach used by the Board to develop the disclosure requirements of this ED. We believe that the IASB has struck the right balance in its approach to this project in that it has sought to identify substantially all the common information needs of primary users, leaving preparers to exercise judgement, about what disclosures to give, only in limited circumstances. In this respect, we concur with the Board's decision to exclude disclosure objectives from this ED as stated in the Basis for Conclusions paragraph 41.

However, it is important not to introduce new disclosure requirements when using the IFRS for SMEs' disclosure requirements, or tailoring the IFRS Standards' disclosures, to avoid new or more disclosures compared with those required by IFRS Standards. (For instance, the ED paragraph 25 (a) is an additional requirement that does not exist in IFRS 1). We believe that an entity complying with the ED proposals should be able to achieve this by reducing its disclosures otherwise required by IFRS Standards, without needing to develop new disclosures.

Furthermore, we draw the Board's attention to a conflict that could arise from the application of IAS 1 *Presentation of Financial Statements* (IAS 1) paragraph 17(c) requiring entities to disclose additional information to enable users understand specific transactions. In our view, the principles set out in BC34 identifying primary users' needs should be incorporated into the proposed ED as application guidance for the judgements required by paragraph 17(c) of IAS 1. This would allow a non-publicly accountable entity to focus such disclosures on the needs of its primary users.

We acknowledge that IFRS 17 *Insurance Contracts* (IFRS 17) is a new standard and that the IASB has insufficient experience from its application from which to assess what disclosure requirements may be reduced. However, we suggest the IASB reconsiders this area after sufficient experience with applying IFRS 17 has been gained and after undertaking further outreach with relevant stakeholders.

Accountancy Europe suggests simplifying the structure of the ED to aid application by preparers. We believe all disclosure requirements should be incorporated into the main body of the ED, rather than be introduced by way of footnote to other IFRS Standards.

Finally, we observe that the IASB has adopted different approaches in this ED and Exposure Draft: *Disclosure Requirements in IFRS Standards - A Pilot Approach*[1]. While we agree with the IASB's approach in this ED to specify the disclosures needed, we believe there is a need to clarify the role of each approach and the relationship between them.

[1] See our comment letter to the IASB on this project: https://www.accountancyeurope.eu/wp-content/uploads/211021-IASB-ED-Disclosure-Initiative-AcE-response.pdf

*   *   *

We kindly refer to Annex 1 and Annex 2 of this letter for our detailed responses.

Please do not hesitate to contact Nael Braham (nael@accountancyeurope.eu) in case of any questions or remarks.

Sincerely,

Olivier Boutellis-Taft

Chief Executive Officer

ABOUT ACCOUNTANCY EUROPE

Accountancy Europe unites 50 professional organisations from 35 countries that represent close to 1 million professional accountants, auditors and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18).

ANNEX 1: IASB ED – QUESTIONS FOR RESPONDENTS

OBJECTIVE

Question 1—Objective

Paragraph 1 of the draft Standard proposes that the objective of the draft Standard Subsidiaries without Public Accountability: Disclosures is to permit eligible subsidiaries to apply the disclosure requirements in the draft Standard and the recognition, measurement and presentation requirements in IFRS Standards.

Do you agree with the objective of the draft Standard? Why or why not? If not, what objective would you suggest and why?

(1) Accountancy Europe welcomes the objective of the ED which allows eligible subsidiaries to prepare reduced disclosures while applying the recognition, measurement, and presentation requirements of IFRS Standards. We understand that the IASB's aim is to address calls from preparers of IFRS financial statements to alleviate the burden of maintaining different sets of accounting records, as well as to save time and costs when preparing all disclosures required by IFRS Standards for these subsidiaries.

(2) When the IFRS for SMEs Standard was first issued, it was not endorsed in the European Union (EU) as it was assessed as not compatible[2] in certain aspects with the EU Accounting Directive 2013/34/EU[3]. To the extent that this ED is permitted for use by EU Member States for private company statutory reporting, this could support better comparability across countries and lessen the effort to transition to IFRS Standards when required (e.g., if an entity undertakes an IPO).

SCOPE

Question 2—Scope

Paragraphs 6–8 of the draft Standard set out the proposed scope. Paragraphs BC12–BC22 of the Basis for Conclusions explain the Board's reasons for that proposal.

Do you agree with the proposed scope? Why or why not? If not, what approach would you suggest and why?

(3) Accountancy Europe agrees with limiting the scope to non-publicly accountable entities. However, we see merits to extend it beyond subsidiaries without public accountability. We believe that the scope should be widened to include **all** non-publicly accountable entities. This extended scope would include joint ventures, associates and registered foreign branches of companies, as well as standalone entities and ultimate parents that are not publicly accountable.

(4) First, IFRS 10 *Consolidated Financial Statements* and the EU Accounting Directive 2013/34/EU allow for the exemption of an intermediate parent from preparing consolidated financial statements if its ultimate parent publishes consolidated financial statements in accordance with IFRS Standards. The results of the subsidiary within its parent's consolidated financial statements are not necessarily separately identifiable, and therefore having a parent does not necessarily add directly to the information available about the subsidiary.

[2] We refer to the compatibility analysis made by EFRAG https://www.efrag.org/Activities/172/Compatibility-Analysis-IFRS-for-SMEs-and-the-Council-Directives#

[3] Directive 2013/34/EU on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013L0034&from=EN

(5) Furthermore, the obligation to prepare 'additional accounting records' as described in paragraph BC2 of the ED applies just as much to an associate, a joint venture and a branch, as it does to a subsidiary. Therefore, the 'need' is the same across all these entities.

(6) Additionally, the reduced disclosure requirements retained in this ED are mainly drawn from the IFRS for SMEs[4] Standard which are not designed specifically for subsidiaries but can be used by standalone SMEs and SME parent entities as well.

(7) Considering these observations, we see little or no conceptual or practical difference between allowing a subsidiary to use the reduced disclosures and allowing other entities. Therefore, we support the alternative view of Ms Françoise Flores in terms of the scope of the ED.

(8) On another note regarding the scope of the ED, it is our understanding that the definition of 'holding assets in a fiduciary capacity as one of its primary businesses' are terms that are difficult to assess. Therefore, we suggest the Board to provide more guidance in that respect.

DEVELOPING THE PROPOSED DISCLOSURE REQUIREMENTS

Question 3—Approach to developing the proposed disclosure requirements

Paragraphs BC23–BC39 of the Basis for Conclusions explain the Board's reasons for its approach to developing the proposed disclosure requirements.

Do you agree with that approach? Why or why not? If not, what approach would you suggest and why?

(9) Accountancy Europe agrees with the Board's approach in developing the proposed disclosure requirements. The IFRS for SMEs Standard is a reasonable basis for disclosures when there are no recognition and measurement differences between the IFRS for SMEs and IFRS Standards. Resultantly, we support tailoring the disclosure requirements of IFRS Standards when there are such differences.

(10) However, in using the IFRS for SMEs' disclosure requirements, or tailoring the IFRS Standards' disclosures, it is important that this ED does not introduce new disclosure requirements. Entities may end up preparing new or more disclosures compared with those required by IFRS Standards (for instance, the ED paragraph 25 (a) is an additional requirement that does not exist in IFRS 1). In other words, we believe that an entity complying with the ED proposals should be able to achieve this by reducing its disclosures otherwise required by IFRS Standards, without needing to develop new disclosures.

(11) The IASB only made minor changes and improvements to the IFRS for SMEs Standard in the last periodic review. In our view, this constitutes evidence that the disclosures of the IFRS for SMEs Standard remain valid and could be used in the approach to developing this ED.

Question 4—Exceptions to the approach

Paragraphs BC40–BC52 of the Basis for Conclusions explain the Board's reasons for the exceptions to its approach to developing the proposed disclosure requirements. Exceptions (other than paragraph 130 of the draft Standard) relate to:

- *disclosure objectives (paragraph BC41);*
- *investment entities (paragraphs BC42–BC45);*
- *changes in liabilities from financing activities (paragraph BC46);*
- *exploration for and evaluation of mineral resources (paragraphs BC47–BC49);*

[4] IFRS for SMEs Standard: https://www.ifrs.org/issued-standards/ifrs-for-smes/#pdf-and-translations

- *defined benefit obligations (paragraph BC50);*
- *improvements to disclosure requirements in IFRS Standards (paragraph BC51); and*
- *additional disclosure requirements in the IFRS for SMEs Standard (paragraph BC52).*

(a) Do you agree with the exceptions? Why or why not? If not, which exceptions do you disagree with and why? Do you have suggestions for any other exceptions? If so, what suggestions do you have and why should those exceptions be made?

(b) Paragraph 130 of the draft Standard proposes that entities disclose a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. The proposed requirement is a simplified version of the requirements in paragraphs 44A–44E of IAS 7 Statement of Cash Flows.

i. Would the information an eligible subsidiary reports in its financial statements applying paragraph 130 of the draft Standard differ from information it reports to its parent (as required by paragraphs 44A–44E of IFRS 7) so that its parent can prepare consolidated financial statements? If so, in what respect?

ii. In your experience, to satisfy paragraphs 44A–44E of IAS 7, do consolidated financial statements regularly include a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities?

(12) Accountancy Europe supports the exclusion from this ED of the general disclosure objectives of IFRS Standards. BC41 explains that the IASB omitted the general disclosure objectives from IFRS Standards in selecting which disclosure requirements should be included in the ED, and instead focused on specifying which disclosures should be given by an entity within scope. We believe that this approach strikes the right balance between identifying substantially all the common information needs of primary users and allowing preparers to exercise judgement on what to disclosure only in limited circumstances.

(13) However, we highlight that there could be a conflict between the objectives of the ED and with paragraph 17(c) of IAS 1, in relation to disclosures based on materiality.

(14) Paragraph 17(c) of IAS 1 requires an entity to provide any additional disclosures needed to enable users to understand the impact of particular transactions, other events or conditions on the entity's financial position and financial performance. The requirements of this paragraph are applied in the context of materiality which is defined in terms of the information needs of the primary users.

(15) The IASB has followed the principles used to develop the IFRS for SMEs Standard as set out in BC34 of the ED, focusing on the information needs of the primary users of non-publicly accountable entities. BC34 explains that the needs of these users are narrower than those of the primary users of entities that have public accountability.

(16) We suggest including the principles in BC34 in the ED as they are necessary when applying the requirements of paragraph 17(c) of IAS 1 specifically, and when making materiality judgements more generally. This would help clarify that disclosure judgements should be made in the context of the narrower primary user group that the IASB had in mind, by assessing any potential additional disclosures against the principles set out in BC34.

(17) We also suggest the IASB provides more associated guidance in order to avoid a crash with the requirements of paragraph 17(c) of IAS 1, which could lead to an entity including disclosures beyond those necessary for a non-publicly accountable entity, contrary to the objective of the ED.

THE PROPOSED REDUCED DISCLOSURE REQUIREMENTS

Question 5—Disclosure requirements about transition to other IFRS Standards

Any disclosure requirements specified in an IFRS Standard or an amendment to an IFRS Standard about the entity's transition to that Standard or amended Standard would remain applicable to an entity that applies the Standard.

Paragraphs BC57–BC59 of the Basis for Conclusions explain the Board's reasons for this proposal.

Do you agree with this proposal? Why or why not? If not, what approach would you suggest and why?

(18) Accountancy Europe welcomes the IASB's proposals laid down in paragraph 5 of the ED, which require entities applying this ED to use the transition requirements set out in the new or amended standard itself.

(19) However, when drafting disclosure requirements about transition to a new or amended standard, we invite the IASB to assess whether all such disclosure requirements would remain relevant for entities that would apply the future standard.

Question 6—Disclosure requirements about insurance contracts

The draft Standard does not propose to reduce the disclosure requirements of IFRS 17 Insurance Contracts. Hence an entity that applies the Standard and applies IFRS 17 is required to apply the disclosure requirements in IFRS 17.

Paragraphs BC61–BC64 of the Basis for Conclusions explain the Board's reasons for not proposing any reduction to the disclosure requirements in IFRS 17.

(a) Do you agree that the draft Standard should not include reduced disclosure requirements for insurance contracts within the scope of IFRS 17? Why or why not? If you disagree, from which of the disclosure requirements in IFRS 17 should an entity that applies the Standard be exempt? Please explain why an entity applying the Standard should be exempt from the suggested disclosure requirements.

(b) Are you aware of entities that issue insurance contracts within the scope of IFRS 17 and are eligible to apply the draft Standard? If so, please say whether such entities are common in your jurisdiction, and why they are not considered to be publicly accountable.

(20) As IFRS 17 is a new standard and given the lack of practical experience thereon, Accountancy Europe does not object with the proposal to apply disclosure requirements of IFRS 17 as opposed to reduced disclosures through this ED.

(21) Nevertheless, we believe that preparing all IFRS 17 disclosure requirements for captive insurance companies within the same group or corporates that may have certain contracts falling in the scope of IFRS 17, but which are not engaged in insurance business, may not be relevant. For that reason, we invite the IASB to perform additional outreach with the relevant stakeholders to identify opportunities for reductions in IFRS 17 disclosures under this ED.

Question 7—Interaction with IFRS 1 First-time Adoption of International Financial Reporting Standards

Paragraphs 23–30 of the draft Standard propose reduced disclosure requirements that apply to an entity that is preparing its first IFRS financial statements and has elected to apply the Standard when preparing those financial statements.

If a first-time adopter of IFRS Standards elected to apply the draft Standard, the entity would:

- *apply IFRS 1, except for the disclosure requirements in IFRS 1 listed in paragraph A1(a) of Appendix A of the draft Standard; and*
- *apply the disclosure requirements in paragraphs 23–30 of the draft Standard.*

This approach is consistent with the Board's proposals on how the draft Standard would interact with other IFRS Standards.

However, IFRS 1 differs from other IFRS Standards—IFRS 1 applies only when an entity first adopts IFRS Standards and sets out how a first-time adopter of IFRS Standards should make that transition.

(a) Do you agree with including reduced disclosure requirements for IFRS 1 in the draft Standard rather than leaving the disclosure requirements in IFRS 1?

Paragraphs 12–14 of the draft Standard set out the relationship between the draft Standard and IFRS 1.

(b) Do you agree with the proposals in paragraphs 12–14 of the draft Standard? Why or why not? If not, what suggestions do you have and why?

(22) Accountancy Europe agrees with the IASB proposed requirements for first-time adopters of IFRS Standards.

Question 8 The proposed disclosure requirements

Paragraphs 22–213 of the draft Standard set out proposed disclosure requirements for an entity that applies the Standard. In addition to your answers to Questions 4 to 7:

(a) Do you agree with those proposals? Why or why not? If not, which proposals do you disagree with and why?

(b) Do you recommend any further reduction in the disclosure requirements for an entity that applies the Standard? If so, which of the proposed disclosure requirements should be excluded from the Standard and why?

(c) Do you recommend any additional disclosure requirements for an entity that applies the Standard? If so, which disclosure requirements from other IFRS Standards should be included in the Standard and why?

(23) Accountancy Europe believes that users' needs in term of disclosure requirements is a subjective assessment. We believe that it is the Board's role to identify common information needs of primary users. Therefore, we suggest changes to disclosures as noted in paragraphs 24 -28 below.

(24) **Regarding the IFRS 7 Financial Instruments: Disclosures section,** we suggest more disclosures about liquidity and liquidity risk, specifically the maturity analysis for liabilities specified in IFRS 7, paragraph 39). As paragraph BC34 of the ED confirms, information about an entity's liquidity is useful information.

(25) **Within the IFRS 15 Revenue from Contracts with Customer section:** We suggest including disclosures based on IFRS 15, paragraphs 110(b), 119(a), 119(c) and 123. Paragraph BC34 identifies information about measurement uncertainties as being important. Given the importance of an entity's reported revenue, we think there is a need to add disclosure requirements about revenue estimates and the related significant judgements the entity has made.

(26) **Within the IAS 12 Income Taxes section:** We suggest including disclosures based on IAS 12 paragraph 82 in relation to the basis of recognising a deferred tax asset.

(27) **Within the IAS 37 Provisions, Contingent Liabilities and Contingent Assets section:** We suggest including disclosures based on IAS 37 paragraph 85(b), specifically in relation to the major assumptions made concerning future events upon which a provision has been measured**.**

(28) **Within the IAS 34 Interim Financial Reporting section:** We do not expect that interim reporting will be relevant for eligible entities. Consequently, we suggest that the IASB does not need to provide reduced disclosures for this standard.

Question 9—Structure of the draft Standard

Paragraphs 22–213 of the draft Standard set out proposed disclosure requirements for an entity that applies the Standard. These disclosure requirements are organised by IFRS Standard and would apply instead of the disclosure requirements in other IFRS Standards that are listed in Appendix A. Disclosure requirements that are not listed in Appendix A that remain applicable are generally indicated in the draft Standard by footnote to the relevant IFRS Standard heading. Paragraphs BC68–BC70 explain the structure of the draft Standard.

(a) Do you agree with the structure of the draft Standard, including Appendix A which lists disclosure requirements in other IFRS Standards replaced by the disclosure requirements in the draft Standard? Why or why not? If not, what alternative would you suggest and why?

(29) Accountancy Europe notes that the disclosure requirements in the ED are located in different places i.e., footnotes and the core ED, while Appendix A lists the disclosure requirements replaced by this ED. We believe this structure complicates the reading and understanding of the required disclosures.

(30) Therefore, we suggest simplifying the structure by using one single section where all the required information can be found. More specifically, we propose that the IASB incorporates the requirements mentioned in footnotes into the main body of the ED.

OTHER COMMENTS

Question 10—Other comments

Do you have any other comments on the proposals in the draft Standard or other matters in the Exposure Draft, including the analysis of the effects (paragraphs BC92–BC101 of the Basis for Conclusions)?

(31) We note that the IASB used two approaches when developing the proposals of this ED and the proposals in ED *Disclosure Requirements in IFRS Standards - A Pilot Approach*[5]. The latter aims to improve disclosures using an objective based approach, whereas this ED is based on specific minimum required disclosures. While we agree with the IASB's plan to undertake both of these projects at the same time, and we agree with the approach to specifying disclosures in this ED, we believe there is a need for the IASB to clarify the role of each approach and the relationship between them.

[5] See our response to the IASB on this project: https://www.accountancyeurope.eu/wp-content/uploads/211021-IASB-ED-Disclosure-Initiative-AcE-response.pdf

(32) We invite the IASB to consider the lessons learned from the Reduced Disclosures Framework[6] implemented several years ago by the UK and Ireland. It is our understanding that it is has been a popular framework among eligible entities

[6] FRS 101 Reduced Disclosure Framework Disclosure exemptions from EU-adopted IFRS for qualifying entities, see https://www.frc.org.uk/accountants/accounting-and-reporting-policy/uk-accounting-standards/standards-in-issue/frs-101-reduced-disclosure-framework

ANNEX 2: EFRAG DCL – QUESTIONS TO CONSTITUENTS

We are pleased to provide below our detailed responses to the questions.

Question to Constituents (paragraph 12 of the DCL)

> *This (draft) Standard would allow subsidiaries without public accountability to make a transition to IFRSs adopting a reduced set of disclosure. On the one hand, it has been observed that such entities would however have to continue to produce a detailed set of disclosure to prepare their reporting package for the parent company that produces full IFRSs. But on the other hand, the level of materiality at group level will be different from the materiality at subsidiary level. Do you expect any incremental benefits for the European companies in your jurisdiction? Please detail.*

(33) In general, we believe that eligible entities in Europe will obtain incremental benefits by applying this ED. We recognise that these subsidiaries will continue to prepare their reporting packages for consolidation purposes in accordance with IFRS Standards. However, for many of these subsidiaries, the disclosures included for group reporting purposes use higher materiality thresholds for capturing and disclosing the information. Should these entities apply the ED for their separate financial statements, we expect that several notes may not be required either for separate reporting due to the reduced disclosure regime, or for group reporting due to immateriality.

(34) Consequently, allowing these subsidiaries to prepare reduced disclosures will prevent spending additional time to prepare other disclosures that were not initially included in their reporting package. This effectiveness impacts not only preparers but also auditors, assuming that the disclosure requirements retained by this ED are the most relevant for the intended users.

Question to Constituents (paragraph 37 of the DCL)

> *Considering the advantages and disadvantages identified above and the EU accounting legislation, do you prefer a different scope? If so, please specify your preference*

(35) Please refer to paragraphs 3-8 of our comment letter.

Question to Constituents (paragraph 47 of the DCL)

> *Do you foresee any incompatibilities between the IASB's proposals included in the ED (e.g., use of the term 'public accountability') and EU accounting legislation, such as Regulation (EC) No 1606/2002 or the Directive 2013/34/EU (e.g., use of the term 'Public Interest Entities')?*

(36) We acknowledge that the definition of non-publicly accountable entity in this ED is different from the Public Interest Entities (PIE) definition provided by the EU Accounting Directive 2013/34/EU. However, we expect most of PIEs to be covered by both definitions.

Question to Constituents (paragraph 84 of the DCL)

> *In your jurisdiction, are there entities that issue insurance contracts within the scope of IFRS 17 and are eligible to apply the IASB's proposals? If so, please provide details on which entities would be in the scope, the nature of insurance activities they undertake and how common they are. What simplifications to disclosure requirements of IFRS 17 would you propose for those entities?*

(37) Please refer to our comments in paragraphs 20-21.