

STAFF PAPER

November 2020

IASB[®] Meeting

Project	Disclosure Initiative—Subsidiaries that are SMEs		
Paper topic	When to consider disclosure requirements for new and amended IFRS Standards		
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Introduction

1. At the November 2020 meeting the Board is being asked to continue its discussion of matters identified from the Board members' review of the analysis of adaptations required to the disclosure requirements of the *IFRS for SMEs* Standard as part of the Subsidiaries that are SMEs project.

Objective

2. Should the Board decide to propose a reduced disclosure IFRS Standard for subsidiaries that are SMEs it needs to decide *when* to propose amendments to the Standard for new and amended IFRS Standards that amend or introduce new disclosure requirements.
3. This paper examines:
 - (a) possible dates when the Board could propose amendments to the reduced disclosure IFRS Standard for new and amended IFRS Standards that affect disclosure requirements, by examining approaches the Board takes in other areas of its work (paragraphs 5–19); and

- (b) the cut-off dates for the content of a consultation document (paragraphs 20–28).

Recommendations

- 4. It is recommended that the Board proposes:
 - (a) updates to the reduced disclosure IFRS Standard when it publishes an exposure draft of a new or amended IFRS Standard that affects disclosure requirements (paragraph 19); and
 - (b) a consultation document includes IFRS Standards and IFRIC Interpretations issued as at 1 January 2021 and exposure drafts published but not finalised as at 1 January 2021, except for Exposure Draft *General Presentation and Disclosure* (paragraph 28).

When to propose updates

Possible approaches

- 5. To evaluate when the Board should update the reduced disclosure IFRS Standard for amendments arising from a new or amended IFRS Standard that affects disclosure requirements the staff considered other activities of the Board which require updates as a consequence of an amendment or new IFRS Standard. These include:
 - (a) the *IFRS for SMEs* Standard;
 - (b) IFRS Taxonomy; and
 - (c) amendments arising from a new or amended IFRS Standard.

Approach to updating the IFRS for SMEs Standard

6. The Board is consulting, as part of the second comprehensive review of the *IFRS for SMEs* Standard, on when to consider aligning the *IFRS for SMEs* Standard with IFRS Standards. The Board reaffirmed its decision, taken in the first comprehensive review, not to consider alignment of Standards before they are effective. In the Request for Information on the Second Comprehensive Review of the *IFRS for SMEs* Standard the Board has asked for views on four possible dates:
 - (a) Issued up to the publication date of the Request for Information;
 - (b) Effective before the publication date of the Request for Information;
 - (c) Effective and on which the post-implementation review was completed before the publication date of the Request for Information; or
 - (d) Issued and effective on some other date.

7. The four possible dates all reflect the Board’s approach to updating the *IFRS for SMEs* Standard periodically as part of a comprehensive review.

8. The aim of the reduced disclosure for subsidiaries project is to permit subsidiaries that meet the definition of a small or medium-sized entity to apply IFRS Standards with reduced disclosures. This project responds to requests for subsidiaries which report for consolidation purposes to a parent entity which prepares financial statements applying IFRS Standards. If the Board adopts the approach to update the reduced disclosure IFRS Standard periodically the benefits of the reduced disclosure Standard will be delayed.

9. Consequently, it is not recommended that, for the Subsidiaries that are SMEs project, the Board follows any of the dates set out in the Request for Information on the Second Comprehensive Review of the *IFRS for SMEs* because the *IFRS for SMEs* Standard is updated periodically (normally once every five years) and the benefits of reduced disclosure or improved disclosure would be delayed.

Approach to updating the IFRS Taxonomy

10. A proposed IFRS Taxonomy update is developed for new or amended IFRS Standards only (paragraph A28 of the Annex to the IFRS Foundation *Due Process Handbook*).
11. This approach could be extended to the reduced disclosure IFRS Standard. That is, the Board would propose amendments to the reduced disclosure IFRS Standard after a new or amended IFRS Standard that affects disclosure requirements is issued. This approach would require the Board to publish an exposure draft of amendments to the reduced disclosure IFRS Standard after the new or amended IFRS Standard is issued.
12. Whilst waiting to propose amendments to the reduced disclosure IFRS Standard has the advantage of avoiding potential rework that might arise because of changes between proposals in an exposure draft and requirements of a new or amended IFRS Standard, it does mean that the Board (and stakeholders) would need to consider reduced disclosure requirements for subsidiaries separately, after issuing the new or amended IFRS Standard.
13. Amendments to the reduced disclosure IFRS Standard would therefore be introduced at a later date than the issue date of the new or amended IFRS Standard. If a publicly accountable entity wished to adopt a new IFRS Standard early in its consolidated financial statements, it is likely to require its subsidiaries to apply it early. If there has been no amendment to the reduced disclosure IFRS Standard the disclosure requirements of the new IFRS Standard would apply in full to subsidiaries.
14. The staff are therefore not recommending this approach because of the additional work the Board and stakeholders would need to complete, and the delay that may introduce to the benefits of reduced disclosure or additional disclosure, if a separate exposure draft were published after the new or amended IFRS Standard was issued.

Amendments arising from a new or amended IFRS Standard

15. When the Board issues an amendment or a new IFRS Standard it simultaneously updates other IFRS Standards. The Board sometimes refers to these amendments as consequential amendments.
16. Applying this approach the Board would propose an amendment to the reduced disclosure IFRS Standard simultaneously it proposes a new or amended IFRS Standard if that new or amended IFRS Standard includes new or revised disclosure requirements. That is, the exposure draft of a new or amended IFRS Standard would include the proposed amendment to the reduced disclosure IFRS Standard.
17. Although this approach does not address the potential for rework to be required if a change occurs between proposals in an exposure draft and requirements in a new or amended IFRS Standard, it does address the concern that the Board and stakeholders would need to consider reduced disclosure requirements for subsidiaries that are SMEs separately after issuing the new or amended IFRS Standard. This is the approach that the Board follows to updating IFRS 1 *First-time Adoption of International Financial Reporting Standards*.
18. Furthermore, there are instances where an immediate consequential amendment could be required. For example, the disclosure requirements of IAS 16 *Property, Plant and Equipment* are set out in paragraphs 73–79 of the Standard. Consequently, if, say, a new paragraph 74A is added to IAS 16 when the Board amends IAS 16, subsidiaries that are SMEs would automatically be exempt from paragraph 74A if the reduced disclosure IFRS Standard has exempted subsidiaries from paragraphs 73–79 of IAS 16.
19. The staff recommend that the Board proposes updates to the reduced disclosure IFRS Standard when it publishes an exposure draft of a new or amended IFRS Standard that affects disclosure requirements.

Question for the Board

Question 1

Does the Board agree with the staff recommendation that if the Board decides to propose a reduced disclosure IFRS Standard, amendments to that reduced disclosure IFRS Standard should be proposed when an exposure draft of a new or amended IFRS Standard that affects disclosure requirements is published?

Cut-off date for contents of a possible consultation document of the reduced disclosure IFRS Standard

20. If the Board agrees with the staff recommendation in paragraph 19, a question arises as to what should be the cut-off date for the content of a consultation document of a reduced disclosure IFRS Standard for subsidiaries that are SMEs.
21. The staff think there are three possible cut-off dates for the content of a consultation document:
 - (a) IFRS Standards and IFRIC Interpretations issued as at 1 January 2020.
 - (b) IFRS Standards and IFRIC Interpretations issued as at 1 January 2021.
 - (c) IFRS Standards and IFRIC Interpretations issued as at 1 January 2021 and exposure drafts published but not finalised as at 1 January 2021.

IFRS Standards and IFRIC Interpretations issued as at 1 January 2020

22. The staff have completed the analysis of adaptations required to the disclosure requirements of the *IFRS for SMEs* Standard and have developed suggested disclosure requirements for the reduced disclosure IFRS Standard. The analysis was undertaken topic by topic for all IFRS Standards and IFRIC Interpretations issued as at 1 January 2020.

IFRS Standards and IFRIC Interpretations issued as at 1 January 2021

23. During 2020 the Board has issued the following amendments to IFRS Standards which affect disclosure requirements:
- (a) *Property, Plant and Equipment: Proceeds before Intended Use* (Amendments to IAS 16);
 - (b) *Interest Rate Benchmark Reform – Phase 2* (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16);
 - (c) *Covid-19-Related Rent Concessions* (Amendments to IFRS 16).
24. If the consultation document includes all IFRS Standards and IFRIC Interpretations issued as at 1 January 2021 the staff would need to update the analysis of adaptations required to the disclosure requirements of the *IFRS for SMEs* Standard for the amendments to IFRS Standards listed in paragraph 23.

IFRS Standards and IFRIC Interpretations issued as at 1 January 2021 and exposure drafts published but not finalised as at 1 January 2021

25. Should the Board agree with the staff recommendation, that it proposes amendments to the reduced disclosure IFRS Standard when it publishes an exposure draft of a new or amended IFRS Standard that affects disclosure requirements, the analysis of adaptations required to the disclosure requirements of the *IFRS for SMEs* Standard would need to be extended for the amendments to IFRS Standards in paragraph 23 and published exposure drafts which affect disclosure requirements, for example:
- (a) *General Presentation and Disclosures*; and
 - (b) *Disclosure of Accounting Policies*.
26. The staff believe that given the significance of proposals in Exposure Draft *General Presentation and Disclosures* and that the comment period for this exposure draft is closed, it would be effective to wait for the new IFRS Standard to be issued and to publish a separate exposure draft on how the disclosure requirements would be adapted for a subsidiary that is an SME.

27. Waiting until the new IFRS Standard on *General Presentation and Disclosures* is issued avoids the potential for rework should the proposals in the Exposure Draft *General Presentation and Disclosures* that affect disclosure requirements be amended. In addition, the Board could develop the proposals simultaneously to considering the feedback on the Exposure Draft *General Presentation and Disclosures*.

Recommendation

28. The staff are recommending that the scope of the consultation document of the reduced disclosure IFRS Standard includes:
- (a) IFRS Standards and IFRIC Interpretations issued as at 1 January 2021; and
 - (b) all exposure drafts published but not finalised as at 1 January 2021 except for Exposure Draft *General Presentation and Disclosures*.

Question for the Board

Question 2

Does the Board agree with the staff recommendation that, if it decides to propose a reduced disclosure IFRS Standard, the cut-off date for the content of the consultation document should include IFRS Standards and IFRIC Interpretations issued as at 1 January 2021 and exposure drafts published but not finalised as at 1 January 2021, except for Exposure Draft *General Presentation and Disclosures*?