

STAFF PAPER

November 2020

IASB[®] Meeting

Project	Disclosure Initiative—Subsidiaries that are SMEs		
Paper topic	Cover paper		
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Project objective and tentative decisions to date

1. The objective of the project is to develop an IFRS Standard (reduced disclosure IFRS Standard) that will permit subsidiaries that are small and medium-sized entities (SMEs) to apply IFRS Standards but with reduced disclosure requirements.
2. The International Accounting Standards Board (Board) has tentatively decided:
 - (a) To apply the description of SMEs as set out in Section 1 of the *IFRS for SMEs* Standard. The description is included in Appendix A to this paper.
 - (b) The disclosure requirements of the *IFRS for SMEs* Standard will be the starting point for the disclosure requirements; they will be adapted if recognition or measurement differences between the *IFRS for SMEs* Standard and IFRS Standards necessitate it. Adaptations will be made by considering users' needs—achieved by applying the principles in paragraph BC157 of the *IFRS for SMEs* Standard. Paragraph BC157 of the *IFRS for SMEs* Standard is also included in Appendix A to this paper.
3. A summary of the Board's tentative decisions to date is at Appendix B to this paper.

Agenda papers for November 2020 meeting

4. At its October 2020 meeting, the Board discussed four matters identified from the Board members' review of the analysis of adaptations required to the disclosure requirements of the *IFRS for SMEs* Standard.
5. At the November 2020 meeting, the Board is asked to discuss further matters identified from the staff analysis and Board members' review. The agenda papers for this meeting are organised as follows:

Agenda paper 31A: Approval of exceptions to the process for adapting disclosure requirements;

Agenda paper 31B: When to consider disclosure requirements for new and amended IFRS Standards;

Agenda paper 31C: Omitted topics and specialised activities.

Agenda Paper 31A: Approval of exceptions to the process for adapting disclosure requirements

6. As noted in paragraph 2(b), the Board tentatively decided to adapt the disclosure requirements of the *IFRS for SMEs* Standard for subsidiaries that are SMEs if a recognition or measurement difference between the *IFRS for SMEs* Standard and IFRS Standard necessitates it.
7. Agenda paper 31A asks the Board to approve exceptions to the process for adapting disclosure requirements for matters identified by staff when preparing the analysis of adaptations to the disclosure requirements of the *IFRS for SMEs* Standard or during the Board members' review of that analysis.

Agenda paper 31B: When to consider disclosure requirements for new or amended IFRS Standards

8. 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.
9. Agenda paper 31B 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; and
 - (b) the cut-off dates for the content of a consultation document.

Agenda paper 31C Omitted topics and specialised activities

10. The *IFRS for SMEs* Standard, compared to IFRS Standards, simplifies recognition and measurement requirements by omitting topics that are not relevant to entities within the scope of the Standard. Agenda paper 31C recommends how the Board approaches disclosure requirements for omitted topics. In addition, it asks the Board for its views on how to approach specialised activities.

Appendix A: Paragraph BC157 of the *IFRS for SMEs* Standard and the description of small and medium-sized entities from Section 1 of the *IFRS for SMEs* Standard

A.1 Paragraph BC157 of the *IFRS for SMEs* Standard states:

Assessing disclosures on the basis of users' needs was not easy, because users of financial statements tend to favour more, rather than fewer, disclosures. The Board was guided by the following broad principles:

- (a) Users of the financial statements of SMEs are particularly interested in information about short-term cash flows and about obligations, commitments or contingencies, whether or not recognised as liabilities. Disclosures in full IFRSs that provide this sort of information are necessary for SMEs as well.
- (b) Users of the financial statements of SMEs are particularly interested in information about liquidity and solvency. Disclosures in full IFRSs that provide this sort of information are necessary for SMEs as well.
- (c) Information on measurement uncertainties is important for SMEs.
- (d) Information about an entity's accounting policy choices is important for SMEs.
- (e) Disaggregations of amounts presented in SMEs' financial statements are important for an understanding of those statements.
- (f) Some disclosures in full IFRSs are more relevant to investment decisions in public capital markets than to the transactions and other events and conditions encountered by typical SMEs.

A.2 Paragraphs 1.2 and 1.3 of the *IFRS for SMEs* Standard describe small and medium-sized entities. They state that:

1.2 Small and medium-sized entities are entities that:

- (a) do not have public accountability; and
- (b) publish general purpose financial statements for external users.

Examples of external users include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies.

- 1.3 An entity has public accountability if:
- (a) 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 (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
 - (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion).

Appendix B—Tentative Board decisions to date

The tentative decisions taken by the Board to date are:

Tentative decision	When taken
The proposed Standard will require a subsidiary to disclose that it had applied the reduced disclosure IFRS Standard, and require this disclosure to be located with the statement required by paragraph 16 of IAS 1 <i>Presentation of Financial Statements</i> .	October 2020
The proposed Standard will require a subsidiary to apply all of the disclosure requirements of IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> .	October 2020
The proposed Standard will require a subsidiary to apply the disclosure requirements about transition provisions that are included in other IFRS Standards, subject to any modification to those disclosure requirements the Board considers appropriate for subsidiaries.	October 2020
The proposed Standard will not include disclosure requirements for combined financial statements.	October 2020
The Board will consider the scope of the project only after the completion of most of the analysis of whether adaptations to the disclosure requirements of the <i>IFRS for SMEs</i> Standard are required.	November 2019
The presentation requirements of IFRS Standards, not of the <i>IFRS for SMEs</i> Standard, shall be applied by subsidiaries that are SMEs	April 2020

Tentative decision	When taken
that elect to apply the IFRS Standard being developed in this project.	
<p>When considering whether to adapt the disclosure requirements of the <i>IFRS for SMEs</i> Standard:</p> <p>(a) if there is no recognition and measurement difference – no change* to the disclosure requirements;</p> <p>(b) if there is a recognition and measurement difference – consider the principles in BC157 of the <i>IFRS for SMEs</i> Standard and adapt the disclosure requirements if supported by one of the principles.</p> <p>* For the avoidance of doubt, there will be no change even if a disclosure requirement was added to an IFRS Standard since the <i>IFRS for SMEs</i> Standard was developed.</p>	October 2019