IFRS

STAFF PAPER

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IASB® meeting

Project	**Disclosure Initiative—Subsidiaries that are SMEs**
Paper topic	Omitted topics and specialised activities

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Introduction

1. This agenda paper discusses two matters that have arisen in developing the analysis of adaptions to the disclosure requirements of the *IFRS for SMEs* Standard for a possible reduced disclosure IFRS Standard: topics that are omitted from the *IFRS for SMEs* Standard; and topics which relate to specialised activities.

Staff recommendations

2. The staff are recommending that if the Board proposes a reduced disclosure IFRS Standard:

   (a) a subsidiary applying the Standard that discloses earnings per share is required to apply the disclosure requirements of IAS 33 *Earnings per Share* (paragraphs 4–13);

   (b) the Standard includes disclosure requirements, derived applying BC157 of the *IFRS for SMEs* Standard, for:

      (i) interim financial reports (paragraphs 14–21); and

      (ii) regulatory deferral account balances (paragraphs 24–27).

Omitted topics

3. The *IFRS for SMEs* Standard, compared to IFRS Standards, simplifies recognition and measurement requirements, reduces the number of disclosures required and simplifies language. Paragraph BC16 of the Basis for Conclusions on the *IFRS for SMEs* Standard sets out five ways in which the requirements of IFRS Standards can be simplified, including omitting some topics. The *IFRS for SMEs* Standard omits earnings per share and interim financial statements. This paper addresses each of these topics and makes a recommendation on how the Board can address each of the topics when developing a reduced disclosure IFRS Standard.

IAS 33 Earnings per share

Background

4. IAS 33 applies to entities whose ordinary shares or potential ordinary shares are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets) or that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing ordinary shares in a public market.

5. The Board has tentatively decided that to be eligible to apply the reduced disclosure IFRS Standard a subsidiary cannot be publicly accountable as described in the *IFRS for SMEs* Standard (see Agenda Paper 31 *Cover paper*, Appendix A). Consequently, a subsidiary applying the reduced disclosure IFRS Standard is outside the scope of IAS 33. However, a subsidiary may choose to disclose earnings per share. Paragraph 3 of IAS 33 states that if an entity discloses earning per share it shall calculate and disclose earning per share in accordance with the Standard.

6. Although the *IFRS for SMEs* Standard omits earnings per share as a topic, paragraph 3.25 of the *IFRS for SMEs* Standard states that an entity making such disclosure describes the basis for preparing and presenting the information.

Approaches to disclosure requirements when a subsidiary applying the reduced disclosure IFRS Standard chooses to disclose earnings per share

7. To address the circumstance in which a subsidiary applying the reduced disclosure IFRS Standard chooses to disclose earnings per share, and is therefore required to apply IAS 33, we considered three approaches to disclosure requirements.

Approach A	**No disclosures are required**. That is a subsidiary applying the reduced disclosure IFRS Standard is not required to provide any of the disclosures required by IAS 33; or
Approach B	**IAS 33 disclosure requirements are adapted**. That is a subsidiary applying the reduced disclosure IFRS Standard would be required to provide adapted disclosures (which would be included in the reduced disclosure IFRS Standard); or
Approach C	**IAS 33 applies.** That is a subsidiary applying the reduced disclosure IFRS Standard provides the disclosures required by IAS 33.

Approach A – no disclosures are required

8. As the *IFRS for SMEs* Standard omits the topic of earnings per share the staff could apply the principles of BC157 of the *IFRS for SMEs* Standard to adapt the disclosure requirements of IAS 33. However, the disclosures required by IAS 33 do not meet the principles of paragraph BC157. Paragraph BC157 focuses on the users' needs of small and medium-sized entities (SMEs) and states users for financial statements of SMEs are particularly interested in information about short-term cash flows and about obligations, commitments, or contingencies. Earnings per share is a profitability measure and does not provide information about future cash flows. Adopting this argument none of the disclosures of IAS 33 would be applicable.

9. By omitting the topic of earnings per share from the *IFRS for SMEs* Standard the Board has assessed the topic is not relevant to SMEs users. However, if a subsidiary chooses to disclose earning per share the subsidiary has decided earnings per share is relevant to

its users. The staff consider that if disclosure of earnings per share is relevant to the subsidiary's users, the corresponding disclosures would also be relevant.

10. Consequently, the staff do not recommend Approach A that the entity is not required to provide any of the disclosures required by IAS 33.

Approach B – IAS 33 disclosure requirements are adapted

11. The staff do not recommend Approach B because the approach the Board has agreed for developing the suggested disclosure requirements is only to adapt the disclosure requirements of the *IFRS for SMEs* Standard if there is a recognition and measurement difference between IFRS Standards and the *IFRS for SMEs* Standard. The adaptations would be determined applying the principles of BC157; however, as applying BC157 does not provide any disclosures in this instance the staff would need to modify the agreed project approach. The staff considered that adapting the disclosure requirements beyond applying BC157 is effectively allowing the scope of the project to expand.

Approach C – apply IAS 33

12. The staff recommend Approach C, that a subsidiary that applies the reduced disclosure IFRS Standard and discloses earning per share is required to apply the disclosure requirements of IAS 33.

13. The staff are recommending this approach because:

    (a) It is consistent with paragraph 3 of IAS 33; and

    (b) If a subsidiary, applying the reduced disclosure IFRS Standard, has determined that disclosure of earnings per share is relevant to users the staff believe the related disclosures are also relevant.

Question for the Board

Question 1
Does the Board agree that if it proposes a reduced disclosure IFRS Standard, a subsidiary applying the Standard and choosing to disclose earnings per share applies the disclosure requirements of IAS 33?

IAS 34 *Interim Financial Reporting*

Background

14. IAS 34 applies when an entity's interim financial report is described as complying with IFRS Standards. IAS 34 does not mandate when or who should provide interim financial reports.

15. A subsidiary that is eligible to apply the reduced disclosure IFRS Standard may elect (or could be required) to prepare interim financial reports; if the interim reports are described as complying with IFRS Standards, IAS 34 applies. Consequently, the disclosure requirements of IAS 34 have been included in the analysis of adaptions to the disclosure requirements of the *IFRS for SMEs* Standard.

Issue

16. As the *IFRS for SMEs* Standard omits the topic of interim financial reports the staff applied the principles of BC157 to adapt the disclosure requirements. However, applying BC157 did not result in a significant reduction in disclosure requirements. Appendix A to this agenda paper reproduces the disclosure requirements of IAS 34 and highlights those the staff suggest omitting from the reduced disclosure IFRS Standard applying the principles of BC157.

Approach

17. As applying BC157 did not result in a significant reduction in disclosure requirements the staff considered (as it did for IAS 8 *Accounting Policies, Changes in Accounting*

Estimates and Errors) whether it would be simpler to require a subsidiary applying the reduced disclosure IFRS Standard to apply the disclosure requirements of IAS 34 as opposed to including adapted disclosure requirements in the reduced disclosure IFRS Standard.

18. Requiring a subsidiary that applies the reduced disclosure IFRS Standard to apply the disclosure requirements of IAS 34 if it prepares interim financial reports is consistent with the staff recommendation for IAS 33, discussed in paragraphs 4–13. However, paragraphs 16A(i), 16A(j),16A(k) and 16A(l) of IAS 34 cross refer to IFRS Standards that include disclosures which will be adapted for the reduced disclosure IFRS Standard. Therefore, unless the reduced disclosure IFRS Standard included the adapted versions of these paragraphs a subsidiary applying the Standard would be required to provide disclosures in its interim financial report it would not be required to disclose in its annual financial statements.

19. Although a subsidiary applying the reduced disclosure IFRS Standard is not precluded from disclosing additional information in either its annual financial statements or its interim financial report, the staff do not consider a subsidiary applying the reduced disclosure IFRS Standard should be *required* to provide disclosures in its interim financial reports that it is not required to provide in its annual financial report.

20. The alternative would be for IAS 34 to be amended by way of a consequential amendment or by way of providing updated references to the equivalent disclosures in the reduced disclosure IFRS Standard. For example, in a table of concordance between the reduced disclosure IFRS Standard and IAS 34. The staff think this approach is cumbersome and is not recommended.

Recommendation

21. The staff recommend that the reduced disclosure IFRS Standard includes an adapted version of IAS 34's disclosure requirements as outlined in Appendix A to this paper. The staff considers this approach:

(a) avoids a subsidiary applying the reduced disclosure IFRS Standard providing disclosures in its interim financial reports it is not required to provide in its annual financial report; and

(b) is less cumbersome than amending IAS 34 by way of a consequential amendment or by providing updated references in a table of concordance.

Question for the Board

Question 2

Does the Board agree if it proposes a reduced disclosure IFRS Standard, the Standard includes an adapted version of IAS 34's disclosure requirements?

Specialised topics

22. As noted above, the *IFRS for SMEs* Standard includes requirements on three types of specialised activities; they are for SMEs involved in agriculture, extractive activities and service concessions. We would like to discuss with the Board disclosure requirements for subsidiaries applying the reduced disclosure IFRS Standard that undertake rate-regulated activities.

23. In addition, we have been asked to discuss with the Board the approach to reduced disclosure for subsidiaries that issue insurance contracts within the scope of IFRS 17 *Insurance Contracts.* The staff will bring a paper on this to the Board at a future meeting.

IFRS 14 Regulatory Deferral Accounts

Background

24. The Board issued IFRS 14 in January 2014. IFRS 14 addresses regulatory deferral account balances that arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation. The *IFRS for SMEs* Standard contains no requirements relating to IFRS 14. Therefore, entities applying the *IFRS for SMEs* Standard cannot recognise regulatory deferral account balances if these balances would not be permitted or required to be recognised by other sections of the *IFRS for SMEs* Standard.

25. In the Request for Information on the Second Comprehensive Review of the *IFRS for SMEs* Standard the Board decided not to ask for views on aligning the *IFRS for SMEs* Standard with IFRS 14, because it has an active project on Rate-regulated Activities which could lead to the replacement of IFRS 14.

Approach

26. Entities subject to rate regulation may be in the scope of the *IFRS for SMEs* Standard and thereby subsidiaries that have regulatory deferral account balances may be applying IFRS 14. The staff have included IFRS 14 in the analysis of adaptions to the disclosure requirements of the *IFRS for SMEs* Standard and applied the principles of BC157 to suggest disclosure requirements.

Recommendation

27. In view of the Board's decision in the Second Comprehensive Review of the *IFRS for SMEs* Standard, the staff wish to confirm that the Board is in agreement that IFRS 14 should be included in the analysis of adaptions to the disclosure requirements of the *IFRS for SMEs* Standard and the principles of BC157 be applied to suggest disclosure requirements.

Question for the Board

Question 3
Does the Board agree if it decides to propose a reduced disclosure IFRS Standard, the proposals should include disclosures for regulatory deferral account balances and those disclosures should be derived applying BC157 of the *IFRS for SMEs* Standard?

Appendix A – IAS 34 *Interim Financial Reports* Disclosure Requirements

Paragraph	Disclosure requirement	Outcome of applying paragraph BC157 of the *IFRS for SMEs* Standard
15	**Significant events and transactions** An entity shall include in its interim financial report an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. Information disclosed in relation to those events and transactions shall update the relevant information presented in the most recent annual financial report.	Add as supported by paragraph BC157(a).
15B	The following is a list of events and transactions for which disclosures would be required if they are significant: the list is not exhaustive. (a) the write-down of inventories to net realisable value and the reversal of such a write-down; (b) recognition of a loss from the impairment of financial assets, property, plant and equipment, intangible assets, assets arising from contracts with customers, or other assets, and the reversal of such an impairment loss; (c) the reversal of any provisions for the costs of restructuring; (d) acquisitions and disposals of items of property, plant and equipment; (e) commitments for the purchase of property, plant and equipment; (f) litigation settlements; (g) corrections of prior period errors; (h) changes in the business or economic circumstances that affect the fair value of the entity's financial assets and financial liabilities, whether those assets or liabilities are recognised at fair value or amortised cost; (i) any loan default or breach of a loan agreement that has not been remedied on or before the end of the reporting period; (j) related party transactions; (k) transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments; (l) changes in the classification of financial assets as a result of a change in the purpose or use of those assets; and (m) changes in contingent liabilities or contingent assets.	This list (non-exhaustive) sets out examples of events and transactions that should be disclosed if they are significant. Add as supported by paragraph BC157(a)–(b) of the *IFRS for SMEs* Standard.
15C	Individual IFRSs provide guidance regarding disclosure requirements for many of the items listed in paragraph 15B. When an event or transaction is significant to an understanding of the changes in an entity's financial position or performance since the last annual reporting period, its interim financial report should provide an explanation of and an update to the relevant information included in the financial statements of the last annual reporting period.	Explains 15B.

Appendix A – IAS 34 Interim Financial Reports Disclosure Requirements

Paragraph	Disclosure requirement	Outcome of applying paragraph BC157 of the *IFRS for SMEs* Standard
16	[Deleted]	
16A	**Other disclosures** In addition to disclosing significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information, in the notes to its interim financial statements or elsewhere in the interim financial report. The following disclosures shall be given either in the interim financial statements or incorporated by cross-reference from the interim financial statements to some other statement (such as management commentary or risk report) that is available to users of the financial statements on the same terms as the interim financial statements and at the same time. If users of the financial statements do not have access to the information incorporated by cross-reference on the same terms and at the same time, the interim financial report is incomplete. The information shall normally be reported on a financial year-to-date basis.	
	(a) a statement that the same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements or, if those policies or methods have been changed, a description of the nature and effect of the change.	Add as supported by paragraph BC157(d).
	(b) explanatory comments about the seasonality or cyclicality of interim operations.	Add as supported by paragraph BC157(a)–(b).
	(c) the nature and amount of items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence.	Add as supported by paragraph BC157(a)–(b).
	(d) the nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years.	Add as supported by paragraph BC157(a).
	(e) issues, repurchases and repayments of debt and equity securities.	Add as supported by paragraph BC157(a)–(b).

Appendix A – IAS 34 Interim Financial Reports Disclosure Requirements

Paragraph	Disclosure requirement	Outcome of applying paragraph BC157 of the *IFRS for SMEs* Standard
	(f) dividends paid (aggregate or per share) separately for ordinary shares and other shares.	Supported by paragraph BC157(a) and (e), but not required by the *IFRS for SMEs* Standard in annual financial statements other than as part of the statement of changes in equity. Therefore, do not add. The dividends paid should be part of the statement of changes in equity in the interim financial report.
	(g) the following segment information (disclosure of segment information is required in an entity's interim financial report only if IFRS 8 *Operating Segments* requires that entity to disclose segment information in its annual financial statements): (i) revenues from external customers, if included in the measure of segment profit or loss reviewed by the chief operating decision maker or otherwise regularly provided to the chief operating decision maker. (ii) intersegment revenues, if included in the measure of segment profit or loss reviewed by the chief operating decision maker or otherwise regularly provided to the chief operating decision maker. (iii) a measure of segment profit or loss. (iv) a measure of total assets and liabilities for a particular reportable segment if such amounts are regularly provided to the chief operating decision maker and if there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment. (v) description of differences from the last annual financial statements in the basis of segmentation or in the basis of measurement of segment profit or loss. a reconciliation of the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations. However, if an entity allocates to reportable segments items such as tax expense (tax income), the entity may reconcile the total of the segments' measures of profit or loss to profit or loss after those items. Material reconciling items shall be separately identified and described in that reconciliation.	Omit from the reduced disclosure IFRS Standard as the *IFRS for SMEs* Standard does not include disclosure requirements for segment reports. IAS 34 does not refer to an entity voluntarily including segment information in its interim financial report so propose similarly not referring to voluntary disclosure of segment information in the reduced disclosure IFRS Standard.

Appendix A – IAS 34 Interim Financial Reports Disclosure Requirements

Paragraph	Disclosure requirement	Outcome of applying paragraph BC157 of the *IFRS for SMEs* Standard
	(h) events after the interim period that have not been reflected in the financial statements for the interim period.	Add as supported by paragraph BC157(a)–(b).
	(i) the effect of changes in the composition of the entity during the interim period, including business combinations, obtaining or losing control of subsidiaries and long-term investments, restructurings, and discontinued operations. In the case of business combinations, the entity shall disclose the information required by IFRS 3 *Business Combinations*. (j) for financial instruments, the disclosures about fair value required by paragraphs 91–93(h), 94–96, 98 and 99 of IFRS 13 *Fair Value Measurement* and paragraphs 25, 26 and 28–30 of IFRS 7 *Financial Instruments: Disclosures*. (k) for entities becoming, or ceasing to be, investment entities, as defined in IFRS 10 *Consolidated Financial Statements*, the disclosures in IFRS 12 *Disclosure of Interests in Other Entities* paragraph 9B. (l) the disaggregation of revenue from contracts with customers required by paragraphs 114–115 of IFRS 15 *Revenue from Contracts with Customers*.	The disclosure requirements in (i)–(l) would be retained. The references to IFRS Standards would need to be updated and reflect any adaptations made for subsidiaries that are SMEs' annual financial statements, so that the disclosures required would be supported by paragraph BC157 *and* would not require a subsidiary to make a disclosure in its interim financial report it is not required to make in its annual financial statements..
17–18	[Deleted]	
19	**Disclosure of compliance with IFRSs**[1] If an entity's interim financial report is in compliance with this Standard, that fact shall be disclosed. An interim financial report shall not be described as complying with IFRSs unless it complies with all the requirements of IFRSs.	This disclosure requirement would not be removed as it provides useful information to users.
Disclosure in annual financial statements		
26	If an estimate of an amount reported in an interim period is changed significantly during the final interim period of the financial year but a separate financial report is not published for that final interim period, the nature and amount of that change in estimate shall be disclosed in a note to the annual financial statements for that financial year.	This disclosure requirement would not be removed. It is supported by paragraph BC157(a).

[1] The staff will update this disclosure requirement for consistency with the Board's tentative decision at the October 2020 meeting to require a subsidiary to disclose in its annual financial statements 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 *Presentation of Financial Statements*.