

STAFF PAPER

January 2021

IASB[®] Meeting

Project	Disclosure Initiative—Subsidiaries that are SMEs		
Paper topic	Consultation document—discussion paper or exposure draft		
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Purpose of this paper

1. In January 2020, the International Accounting Standards Board (Board) moved the Subsidiaries that are SMEs project from the research programme to the standard-setting programme. Subsequently, the staff have developed suggested disclosure requirements for a proposed reduced-disclosure IFRS Standard based on an analysis of the disclosure requirements of the *IFRS for SMEs* Standard and those of IFRS Standards. The analyses and suggested disclosure requirements have been reviewed by Board members and matters arising were discussed in a number of public meetings with the Board between October–December 2020. The Board’s tentative decisions are summarised in Appendix B of this month’s Agenda Paper 31 *Cover paper*.
2. The next due process step is to determine whether the Board should publish a discussion paper or an exposure draft.
3. This paper discusses and asks the Board whether to publish a discussion paper or an exposure draft for the project. The staff recommend publishing an exposure draft as the consultation document for the project.

Discussion paper or an exposure draft

4. Paragraph 5.5 of the [Due Process Handbook](#) states that:

...The Board would normally propose to develop a new IFRS Standard or to make major amendments to a Standard only after it has published a discussion paper and considered the comments it receives from that consultation. Publishing a discussion paper before adding a major standard-setting project to the work plan is not a requirement. However, to proceed without a discussion paper, the Board needs to be satisfied that it has sufficient information and understands the problem and the potential solutions well enough. The Board might conclude that a discussion paper is not necessary because it has sufficient input from a research paper, request for information or other research to proceed directly to an exposure draft. The reasons for not publishing a discussion paper need to be set out by the Board and reported to the [Due Process Oversight Committee].

5. The consultation document for the project could either be a discussion paper or an exposure draft. The *Due Process Handbook* explains that a discussion paper includes a comprehensive overview of the issue, possible approaches to addressing the issue, the preliminary views of the Board and an invitation to comment (paragraph 4.12 of the *Due Process Handbook*). In contrast, an exposure draft sets out a specific proposal in the form of a proposed IFRS Standard (or amendment to an IFRS Standard) and is therefore generally set out in the same way as, and has all the components of, an IFRS Standard (paragraph 6.2 of the *Due Process Handbook*).

6. In developing the recommendation on what the consultation document for the project should be, the staff considered the factors discussed in [Agenda Paper 28 Discussion Papers and Exposure Drafts](#)¹ of the February 2018 Board meeting. These factors include:
 - (a) the need for formal consultation (paragraphs 8–13);
 - (b) the stage of development (paragraphs 14–16);
 - (c) significance of change (paragraphs 17–18);

¹ February 2018 Agenda Paper 28 *Discussion Papers and Exposure Drafts*, paragraphs 24–41.

- (d) effect on timelines and possible risks such as re-exposure (paragraphs 19–21).
7. The staff briefly analysed these matters in [Agenda Paper 31 *Project proposal—moving the project to the standard-setting programme*](#)² of the January 2020 Board meeting, when discussing moving the project to the standard-setting programme. Further analysis of these factors is presented in paragraphs 8–21.

Staff analysis

The need for formal consultation

8. Paragraphs 24–26 of the February 2018 Agenda Paper 28 explained that the nature of the information being sought should be considered in determining the type of consultation document to be published.
9. The staff anticipate that the consultation document will seek views from stakeholders on the following topics:
- (a) scope of the proposed reduced-disclosure IFRS Standard;
 - (b) appropriateness of the disclosure requirements.
10. The staff think that a discussion paper is most useful when there is a range of possible answers or several interrelated issues to explore.
11. Agenda Paper 31B *Scope of the reduced-disclosure IFRS Standard*, of this meeting, examines the scope of the proposed reduced-disclosure IFRS Standard and whether the scope should remain subsidiaries that are SMEs or should be expanded to a wider group of entities. For the reasons set out in the agenda paper, the staff recommend that the scope of the proposed reduced-disclosure IFRS Standard should be subsidiaries that are SMEs. Nevertheless, the staff recommend that a question on the scope should be included in the consultation document. The staff therefore acknowledge that the

² January 2020 Agenda Paper 28 *Project proposal—moving the project to the standard-setting programme*, paragraphs 20–21.

question on the scope of a reduced-disclosure IFRS Standard could be addressed in either a discussion paper or an exposure draft.

12. However, the staff think the suggested disclosure requirements are best illustrated in an exposure draft as this would enable stakeholders to assess the proposed disclosure requirements.
13. On balance, the staff believe that the nature of the information needed from the consultation document is best obtained by publishing an exposure draft. That is, the question on scope can be addressed by either a discussion paper or an exposure draft whereas the consultation on the suggested disclosure requirements is best served by an exposure draft.

The stage of development

14. Paragraphs 27–29 of the February 2018 Agenda Paper 28, explained that an understanding and agreement on core topics, before a project is too far advanced, can help create consensus and gain acceptance of a potential new IFRS Standard or a major amendment even when some stakeholders disagree with particular decisions of the Board.
15. The Board determined the approach to the project in October 2019 (Agenda Paper 31 [*Research results—can we do it*](#)) after discussing whether a possible reduced-disclosure IFRS Standard, if developed, would be adopted and applied (Agenda Paper 31 [*Research results—what have we heard*](#) of the September 2019 meeting). Subsequent to its January 2020 decision to move the project to standard-setting programme, the Board has tentatively decided what disclosure requirements it would propose should it develop a reduced-disclosure IFRS Standard.
16. The staff believe that the approach taken by the Board in developing the suggested disclosure requirements is understood by stakeholders. As noted earlier, the staff think that views on the appropriateness of the suggested disclosure requirements together with views on the proposed scope of a reduced-disclosure IFRS Standard can be sought by an exposure draft.

Significance of change

17. Paragraphs 30–33 of the February 2018 Agenda Paper 28 explained that when new reporting requirements significantly affect current practice there is a greater need to consult. A discussion paper is useful when there is a range of answers or several interrelated issues to explore while an exposure draft is effective when drafting is critical.

18. As noted in paragraph 8, the consultation document would seek views from stakeholders in the appropriateness of the suggested disclosure requirements. As such, and consistent with the staff observation in the January 2020 Agenda Paper 31, drafting would be critical to the project; stakeholders will want to assess the suggested adaptations to the disclosure requirements of the *IFRS for SMEs* Standard.

Effect on timelines and possible risks

19. Paragraphs 34–41 of the February 2018 Agenda Paper 28 explained the Board needs to balance the time needed for consultation against the benefits of consultation. Failure to consult appropriately could result in insufficient information being obtained which means that a consultation might need to be repeated. A discussion paper would allow the Board to obtain feedback from stakeholders and to refine its preliminary views, as needed, without being constrained to a particular approach. However, while allowing a longer time for consultation is consistent with the principle of full and fair consultation, there could be disadvantages to longer timelines when not needed.

20. As noted in the January 2020 Agenda Paper 31, the proposed reduced-disclosure IFRS Standard will reduce costs for subsidiaries that are SMEs and an additional consultation layer (by publishing a discussion paper as the consultation document) could delay the cost savings available to subsidiaries that are SMEs.

21. In the meeting of the Emerging Economies Group held on 30 November–1 December 2020, the staff provided an update about the project. One of the members commented on the consultation document and suggested that an exposure draft, instead of a discussion paper, would not delay the cost savings that could be available to preparers, release the Board’s resources to more urgent projects and improve the efficiency of this project.

Staff recommendation

22. On balance and based on the analysis set out on paragraphs 8–21, the staff recommend that the consultation document should be an exposure draft.
23. At the February 2021 meeting, the staff plan to request permission to start the balloting process including setting the comment period.

Question for the Board

Does the Board agree with the staff recommendation in paragraph 22, that the consultation document for the project should be an exposure draft?