STAFF PAPER

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IASB® Meeting

Project	**Disclosure Initiative—Subsidiaries that are SMEs**		
Paper topic	Sweep issues		

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Purpose of this paper

1. At its February 2021 meeting, the International Accounting Standards Board (Board) gave the staff permission to begin the balloting process for the exposure draft of the proposed disclosure Standard for subsidiaries without publicly accountability (the Exposure Draft).

2. The Board is asked for decisions on two issues that have arisen in drafting the Exposure Draft:
   (a) recent amendments to IFRS Standards (paragraphs 4–15); and
   (b) exemptions from disclosure requirements in other IFRS Standards (paragraphs 16–25).

3. The following information is provided to Board members:
   (a) Appendix A—project background; and
   (b) Appendix B—summary of the Board's tentative decisions.

Recent amendments to IFRS Standards

4. In November 2020, the Board tentatively decided that the Exposure Draft should include all IFRS Standards and IFRIC interpretations issued as at 1 January 2021 and exposure drafts published as at 1 January 2021, except for the Exposure Draft *General Presentation and Disclosures* (see Appendix B).

5. The Board is asked to consider the following two amendments to IFRS Standards:

   (a) disclosure of material accounting policy information (paragraphs 6–9); and

   (b) interest rate benchmark reform (paragraphs 10–15).

Disclosure of material accounting policy information

6. In February 2021, the Board issued amendments to IAS 1 *Presentation of Financial Statements* (together with amendments to IFRS Practice Statement 2 *Making Materiality Judgements*). The Board amended IAS 1 to require an entity to disclose its material accounting policy information rather than its significant accounting policies (see paragraphs 117–119 of IAS 1). As a result, the requirement for an entity to disclose its 'measurement basis (or bases)' (previously paragraphs 117(a) of IAS 1) was deleted to better enable preparers to apply judgement and thereby disclose only material accounting policy information (see paragraph BC76U of the Basis for Conclusions on IAS 1). The amendments added paragraphs 117A–117E to IAS 1 to assist an entity in determining whether accounting policy information is material to its financial statements.

7. The Board believed that these amendments would improve the relevance of the financial statements by helping an entity to identify and disclose accounting policy information that is material to users of financial statements and remove immaterial accounting policy information that may obscure material accounting policy information (see paragraph BC76Y of the Basis for Conclusions on IAS 1).

8. The IAS 1 amended disclosure requirements are not a result of a recognition and measurement difference. Thus, applying the Board's agreed approach[1] in developing suggested disclosure requirements, the amendments to the disclosure requirements of IAS 1 would not be added into the Exposure Draft. This would instead result in the Exposure Draft requiring disclosure of significant accounting policies comprising the measurement basis (or bases) used in preparing the financial statements and other accounting policies used that are relevant to understanding the financial statements. However, the inclusion of these improved disclosure requirements is supported by the principles used to develop the disclosure requirements of *IFRS for SMEs* Standard. In particular, information about the entity's accounting policy choices is important for users (see paragraph BC157(d) of the *IFRS for SMEs* Standard).

Staff recommendation

9. The staff recommend that amendments affecting disclosure requirements in IAS 1 discussed in paragraph 6 should be reflected in the Exposure Draft.

Question for the Board

Question 1
Does the Board agree with the staff recommendation that amendments affecting disclosure requirements in IAS 1 discussed in paragraph 6 should be reflected in the Exposure Draft?

[1] The Board's agreed approach is to use the disclosure requirements from the *IFRS for SMEs* Standard as the starting point for developing the disclosure requirements for the proposed Standard, and to tailor those disclosure requirements when there are recognition and measurement differences. In tailoring those disclosure requirements, the principles in paragraph BC157 of the *IFRS for SMEs* Standard are applied to the relevant disclosure requirements in IFRS Standards.

Interest rate benchmark reform

10. In August 2020, the Board issued *Interest Rate Benchmark Reform—Phase 2*, which amends IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures*, IFRS 4 *Insurance Contracts* and IFRS 16 *Leases*.

11. Two new disclosure requirements were added to IFRS 7 which relate to interest rate benchmark reform (see paragraphs 24I–24J of IFRS 7). Paragraph 24I of IFRS 7 sets out the disclosure objective while paragraph 24J of IFRS 7 sets out disclosure requirements an entity complies with to meet the objective in paragraph 24I.

12. Disclosure requirements in paragraph 24J are *not* about the accounting of the effects of the interest benchmark reform but about:

    (a) how the entity is managing the transition to alternative benchmark rates (paragraph 24J(a));

    (b) information about financial instruments that have not transitioned to an alternative benchmark rate by the end of the reporting period (paragraph 24J(b)); and

    (c) a description of resulting changes to the entity's risk management strategy (paragraph 24J(c)).

13. Applying the Board's agreed approach in developing suggested disclosure requirements, the disclosure requirements in paragraph 24J of IFRS 7 would not be added into the Exposure Draft.

14. However, the staff think that because the Board has tentatively decided to include paragraph 22A of IFRS 7 in the Exposure Draft (Agenda Paper 31A *Exceptions to the process for adapting disclosure requirements*, November 2020), which principally explains the entity's risk management strategy, it would be consistent to add paragraph 24J(c) of IFRS 7 to the Exposure Draft as this explains changes to the risk management strategy as a result interest rate benchmark reform.

Staff recommendation

15. The staff recommend that paragraph 24J(c) of IFRS 7 should be included in the Exposure Draft.

Question for the Board

Question 2
Does the Board agree with the staff recommendation that paragraph 24J(c) of IFRS 7 should be included in the Exposure Draft?

Exemptions from disclosure requirements in other IFRS Standards

16. The staff have received feedback on whether the draft Standard should include a list of disclosure requirements in other IFRS Standards which an entity electing to apply the draft Standard is exempt from.

17. The pre-ballot draft of the Exposure Draft sets out proposals for an optional IFRS Standard that specifies the disclosure requirements for subsidiaries that (i) do not have public accountability; and (ii) whose parent publishes consolidated financial statements that comply with IFRS Standards.

18. To develop the proposed disclosure requirements, the Board used the *IFRS for SMEs* Standard's disclosure requirements and tailored those disclosure requirements for differences in recognition or measurement requirements between IFRS Standards and the *IFRS for SMEs* Standard. In tailoring the *IFRS for SMEs* Standard's disclosures requirements the Board used disclosure requirements from IFRS Standards.

19. The Board used this approach because entities eligible to apply the draft Standard are also eligible to apply the *IFRS for SMEs* Standard. The Board has already assessed users' information needs in developing the disclosure requirements of the *IFRS for SMEs* Standard.

20. A consequence of this approach is that disclosure requirements proposed in draft Standard *replace* the disclosure requirements of IFRS Standards.

21. The pre-ballot draft of the Exposure Draft (i) listed the proposed disclosure requirements as part of the draft Standard; and (ii) Appendix A exempted entities from applying disclosure requirements in other IFRS Standards—listing each disclosure requirement exempted. The staff included Appendix A for the following reasons:

    (a) to exempt an entity from disclosure requirements in other IFRS Standards. An entity electing to apply the draft Standard will apply the requirements of other IFRS Standards, except the disclosure requirements of those other IFRS Standards. The staff therefore considered the draft Standard needed to exempt entities from those disclosure requirements in other IFRS Standards. Specifically, the staff noted that in some jurisdictions the requirements of IFRS Standards are encoded into law and exemptions would be needed to exempt the disclosure requirements included in law.

    (b) to improve clarity. At its meeting in April 2020 (Agenda Paper 31B *Presentation requirements*) the Board discussed what presentation requirements are and how they differ from disclosure requirements. The agenda paper noted:

    > There is a blurring between presentation and disclosure requirements. For example:
    >
    > …
    >
    > …Paragraphs 31 to 36A of IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations* are beneath the heading 'Presenting discontinued operations', but paragraph 33 starts with 'An entity shall disclose: (a) a single amount in the statement of comprehensive income comprising …'. …

22. To address this blurring, the staff believed that including a list of the disclosure requirements in other IFRS Standards an entity applying the draft Standard is exempt from would provide clarity. Particularly the staff considered a list of exempted disclosure requirements would assist preparers and auditors.

23. Furthermore, the staff noted that the Australian Accounting Standards Board (AASB) issued a similar disclosure standard AASB 1060 *General Purpose Financial Statements –Simplified Disclosures for For Profit and Not-for-Profit Tier 2 Entities*. AASB 1060 amended other AASB Standards to specify which disclosure and presentation requirements do not apply to an entity that applied that Standard. AASB 1060 also listed in its implementation guidance (that accompanies but does not form part of AASB 1060) disclosure and presentation requirements in other Standards that do not apply to an entity applying that Standard for ease of reference.

Feedback received

24. We have received the following comments on Appendix A from reviewers:

    (a) the appendix is helpful in the consultation phase but unnecessary in the requirements themselves. The draft Standard should include all disclosure requirements an entity needs to provide in the Standard and be exempted from all disclosure requirements in other IFRS Standards.

    (b) Appendix A is unnecessary as the draft Standard defines what should be disclosed for each IFRS Standard.

    (c) as a general comment, and in light of Appendix A, it might be simpler to:

        (i) asterisk (*) each disclosure requirement in the IFRS Standards for which an exemption is being given;

        (ii) include a statement in IAS 1 that asterisked disclosure requirements in any IFRS Standard need not be given by entities meeting the eligibility criteria (as set out in the Exposure Draft); and

        (iii) to the extent the draft Standard includes any disclosure requirements not otherwise required in any IFRS Standards to also identify in IAS 1 such disclosure requirements stating that eligible entities must provide those ones instead of asterisked ones.

Staff recommendation

25. The staff recommend that, in order to provide clarity, the Board includes Appendix A, which lists all disclosure requirements in other IFRS Standards an entity is exempt from, in the Exposure Draft; this avoids confusion arising when there is a blurring between disclosure and presentation requirements.

Question for the Board

Question 3
Does the Board agree with the staff recommendation to include in Appendix A, listing all disclosure requirements in other IFRS Standards an entity is exempt from, in the Exposure Draft?

Appendix A—Project Background

A1. The Board is undertaking the *Disclosure Initiative—Subsidiaries that are SMEs* project following suggestions, received in response to the Request for Views: *2015 Agenda Consultation*, that the Board permits subsidiaries to apply IFRS Standards with reduced disclosure requirements. Respondents to the Request for Views argued that applying the *IFRS for SMEs* Standard is unattractive because subsidiaries are required to report to their parent, for consolidation purposes, applying the recognition and measurement requirements of IFRS Standards. For their own financial statements, subsidiaries would prefer to use the same recognition and measurement requirements as IFRS Standards, but with less onerous disclosure requirements.

A2. In adding the project to the research programme the Board decided on an approach limited to:

(a) subsidiaries that meet the definition of a small and medium-sized entity (SME) from the *IFRS for SMEs* Standard (a non-publicly accountable subsidiary).

(b) using the disclosure requirements from the *IFRS for SMEs* Standard as the starting point for developing the disclosure requirements in the reduced-disclosure IFRS Standard.

A3. This approach recognises that because this group of subsidiaries is eligible to apply the *IFRS for SMEs* Standard, the Board can be satisfied that the disclosure requirements from the *IFRS for SMEs* Standard are sufficient to meet the needs of users when there is no recognition and measurement difference.

A4. Similarly, when there are recognition and measurement differences, applying the principles in paragraph BC157 of the *IFRS for SMEs* Standard to develop adaptations to the disclosure requirements of the *IFRS for SMEs* Standard, the Board can be satisfied that the disclosure requirements in the reduced-disclosure IFRS Standard would be sufficient to meet user needs.

Appendix B—Summary of the Board's tentative decisions

Tentative decision	When taken
The proposed reduced-disclosure IFRS Standard should include the disclosure requirements about estimates used to measure recoverable amounts of cash-generating units containing goodwill and intangible assets with indefinite useful lives set out in paragraphs 134(a)–(c), 134(d)(i), 134(e)(i), 134(e)(iiA), 135(a)–(c) and 136 of IAS 36 *Impairment of Assets*.	January 2021
A subsidiary that is an SME would be eligible to apply the proposed reduced-disclosure IFRS Standard if, at its reporting date, it is a subsidiary of a parent that applies IFRS Standards in its consolidated financial statements; and that the scope should not be limited to single-entity financial statements.	January 2021
Entities issuing insurance contracts within the scope of IFRS 17 *Insurance Contracts* should apply the disclosure requirements of IFRS 17. The Board will seek views on this decision as part of its consultation.	December 2020
The proposed reduced-disclosure IFRS Standard should not propose amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. In addition, transition provisions are not required for the reduced-disclosure IFRS Standard.	December 2020
In the first financial statements in which a subsidiary ceases to apply the reduced-disclosure IFRS Standard and applies IFRS Standards with full disclosures, the reduced-disclosure	December 2020

Tentative decision	When taken
IFRS Standard will require comparatives for the disclosures not included in the previous years' financial statements.	
The proposed reduced-disclosure IFRS Standard may be applied for the 'first time' more than once by a reporting entity, for example when a subsidiary moves from a reporting group that prepares its financial statements applying IFRS Standards to a group that does not but which then subsequently adopts IFRS Standards.	December 2020
The proposed reduced-disclosure IFRS Standard should clearly state that its application is optional and that an entity's decision to apply the Standard is reversible.	December 2020
Exceptions to the process for adapting disclosure requirements for a possible reduced-disclosure IFRS Standard would: (a) exclude the disclosure requirements in paragraphs 19D(b) and 19E–19G of IFRS 12 *Disclosure of Interests in Other Entities* for investment entities. (b) require a reconciliation between the opening and closing balances of liabilities arising from financing activities. (c) require the disclosures recommended in Appendix B of Agenda Paper 31A *Exceptions to the process for adapting disclosure requirements* of the November 2020 meeting. This lists the disclosure requirements introduced in new and amended IFRS Standards with which the *IFRS for SMEs* Standard is not currently aligned that Board members recommended should be included in the reduced-disclosure IFRS Standard.	November 2020

Tentative decision	When taken
(d) require subsidiaries to apply paragraph 25 of IFRS 6 *Exploration for and Evaluation of Mineral Resources*. (e) require subsidiaries to apply paragraphs 20.13(b) and 11.42 of the *IFRS for SMEs* Standard. The Board also decided that it will consider whether to align the disclosure requirements for all financial liabilities as part of the Second Comprehensive Review of the *IFRS for SMEs* Standard, rather than as part of the Subsidiaries that are SMEs project. (f) include an expanded version of paragraph 28.41(e) of the *IFRS for SMEs* Standard. (g) exclude disclosure objectives that are in IFRS Standards. (h) for disclosure requirements of the *IFRS for SMEs* Standard not in IFRS Standards: (i) exclude paragraphs 28.41(g) and 15.19(d) of the *IFRS for SMEs* Standard—these are based on disclosure requirements that have been replaced in IFRS Standards; (ii) require subsidiaries to apply an adapted version of paragraph 20.14 of the *IFRS for SMEs* Standard—this is based on a disclosure requirement that has been replaced in IFRS Standards; (iii) include the reliefs in paragraphs 17A and 18A of IAS 24 *Related Party Disclosures*; and (iv) require subsidiaries to apply paragraphs 28.42 and 28.43, and an adapted version of paragraph 3.25 of the *IFRS for SMEs* Standard.	

Tentative decision	When taken
The consultation document of the proposed reduced-disclosure IFRS Standard should include IFRS Standards and IFRIC Interpretations issued as at 1 January 2021 and exposure drafts published as at 1 January 2021, except for the Exposure Draft *General Presentation and Disclosures*.	November 2020
To maintain the reduced-disclosure IFRS Standard the Board shall consider amendments to the Standard when the Board publishes an exposure draft of a new or amended IFRS Standard.	November 2020
The proposed reduced-disclosure IFRS Standard will require a subsidiary applying the Standard that chooses to disclose earnings per share to apply the disclosure requirements of IAS 33 *Earnings per Share*.	November 2020
The proposed reduced-disclosure IFRS Standard should include an adapted version of IAS 34 *Interim Financial Reporting* disclosure requirements.	November 2020
The proposed reduced-disclosure IFRS Standard should require a subsidiary to disclose dividends paid in interim financial reports and annual financial statements where there is more than one class of share capital.	November 2020
The proposed reduced-disclosure IFRS Standard should include disclosure requirements derived from applying paragraph BC157 of the *IFRS for SMEs* Standard for regulatory deferral account balances.	November 2020
The proposed reduced-disclosure IFRS Standard will require a subsidiary to disclose that it has applied the reduced disclosure	October 2020

Tentative decision	When taken
IFRS Standard, and require this disclosure to be located with the compliance statement required by paragraph 16 of IAS 1 *Presentation of Financial Statements*.	
The proposed reduced-disclosure IFRS Standard will require a subsidiary to apply all of the disclosure requirements of IAS 8 *Accounting Polices, Changes in Accounting Estimates and Errors*.	October 2020
The proposed reduced-disclosure IFRS 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 reduced-disclosure IFRS 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 *IFRS for SMEs* Standard are required.	November 2019
The presentation requirements of IFRS Standards, not of the *IFRS for SMEs* Standard, shall be applied by subsidiaries that are SMEs that elect to apply the IFRS Standard being developed in this project.	April 2020
When considering whether to adapt the disclosure requirements of the *IFRS for SMEs* Standard:	October 2019

Tentative decision	When taken
(a) if there is no recognition and measurement difference – no change* to the disclosure requirements; (b) if there is a recognition and measurement difference – consider the principles in BC157 of the *IFRS for SMEs* Standard and adapt the disclosure requirements if supported by one of the principles. * For the avoidance of doubt, there will be no change even if a disclosure requirement was added to an IFRS Standard since the *IFRS for SMEs* Standard was developed.	