Staff paper

Agenda reference: 31C

IASB® meeting

Date	**October 2022**
Project	**Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures**
Topic	**Addressing comments on proposed disclosure requirements**
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Purpose of this paper

1. This paper asks the International Accounting Standards Board (IASB) to agree with the staff's recommended process to address comments on the proposed disclosure requirements in the draft IFRS Accounting Standard (draft Standard) set out in Exposure Draft *Subsidiaries without Public Accountability: Disclosures* (Exposure Draft).

Summary of staff recommendation

2. The staff recommend the following process in paragraphs 10–16 to address the comments on the proposed disclosure requirements in the draft Standard:

   (a) Step 1—stratify the comments on the proposed disclosure requirements based on how they were developed;

   (b) Step 2—assess comments against a set of factors: consider principles on users' information needs of non-publicly accountable entities' financial statements, cost–benefit considerations, distribution of the comment, overall usefulness of information and previous IASB discussions and decisions on the topic; and

   (c) Step 3—recommend changes to the proposed disclosure requirements in the draft Standard.

Structure of the paper

3. This paper is structured as follows:

   (a) question in the invitation to comment (see paragraphs 4–5)

   (b) feedback on the proposed disclosure requirements (see paragraph 6);

   (c) staff recommended process (see paragraphs 7–16);

   (d) staff recommendation and question for the IASB (see paragraph 17); and

   (e) Appendix A—Summary of feedback from ASAF members.

Question in the Invitation to Comment

4. Question 8 of the Invitation to Comment in the Exposure Draft asked for feedback on the proposed disclosure requirements set out in paragraphs 22–213 of the draft Standard. Respondents were asked if they agreed, would recommend further reduction or additional disclosure requirements in the draft Standard.

5. Due to the number and diversity of comments received in response to question 8, the staff would like to agree with the IASB the process to analyse the comments effectively and consistently.

Feedback on the proposed disclosure requirements

6. Comments on the proposed disclosure requirements in the draft Standard were diverse and were directed at many of the proposed disclosure requirements. Some common themes observed include:

    (a) many respondents suggested reducing the proposed disclosure requirements further:

        (i) generally, respondents specified which of the proposed disclosure requirements they would exclude and, in most instances, provided a rationale. The proposed disclosure requirements from IFRS 7 *Financial Instruments: Disclosures* and IAS 19 *Employee Benefits* receive the most suggestions for further reductions[1]. For example, some respondents suggested excluding the proposed disclosure requirements for credit risk management practices from IFRS 7.

        (ii) some respondents did not specify the disclosure requirements they would exclude but suggested making further reductions for specific IFRS Accounting Standards. IFRS 7 received the most comments from respondents for further reduction. For example, some of these respondents said eligible subsidiaries would not usually have extensive hedging activities and so the proposed disclosure requirements for hedge accounting in paragraphs 55–58 of the draft Standard are, in their view, excessive.

        (iii) some respondents suggested excluding the disclosure requirements from IAS 34 *Interim Financial Reporting* because an eligible subsidiary would not usually prepare interim financial statements. These respondents noted that, if the subsidiary did, it could apply IAS 34 rather than the draft Standard. This suggestion is similar to the approach in IFRS 8 *Operating Segments* and IAS 33 *Earnings per Share* (see paragraph 4 of the draft Standard).

[1] See paragraphs 42–67 and paragraphs 151–159 of the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* for disclosure requirements on IFRS 7 *Financial Instruments: Disclosures* and IAS 19 *Employee Benefits*, respectively.

(b) some respondents suggested additional disclosure requirements. In most instances these respondents provided a rationale supporting adding a disclosure requirement. Respondents most favoured adding disclosure requirements from IFRS 7 and IFRS 12 *Disclosure of Interests in Other Entities*. For example, some respondents suggested the disclosure requirements about the maturity analysis for non-derivative financial liabilities applying IFRS 7 should be added. Other respondents suggested adding disclosure requirements about the composition of the group when consolidated financial statements are prepared applying IFRS 12.

(c) some respondents asked for guidance on application of the proposed disclosure requirements. The most frequent request was for guidance on applying paragraph 16 of the draft Standard (which reiterates the requirement in paragraph 31 of IAS 1 *Presentation of Financial Statements*) that identifies when an eligible subsidiary provides disclosures in addition to those required by the draft Standard.

Staff recommended process

7. The staff think that the process for analysing comments on the proposed disclosure requirements should be consistent with the IASB's approach to developing the proposed disclosure requirements. Paragraphs 10–16 of this paper set out the staff's recommended process to address comments on the proposed disclosure requirements.

8. In September 2022, the staff asked ASAF members for their views on the recommended process to address comments received on the proposed disclosure requirements. At the time of posting this agenda paper for the October 2022 IASB meeting, the ASAF summary is not available. However, ASAF members supported the staff recommended process. ASAF members commented on specific aspects of the recommended process, and the staff have taken the advice of ASAF members in developing the recommended process set out in this paper.

9. A few ASAF members also commented how the process relates to other IASB projects; for example, the *Disclosure Initiative—Targeted Standards-level Review of Disclosures* project and the *IFRS for SMEs* Accounting Standard (see Agenda Paper 31B *Approach on developing disclosure requirements* of this meeting).

Step 1: Stratify comments

10. The staff propose to stratify comments on the proposed disclosure requirements based on whether the comment relates to:

    (a) a proposed disclosure requirement from the *IFRS for SMEs* Accounting Standard, that is where there is *no* recognition and measurement difference between IFRS Accounting Standards and the *IFRS for SMEs* Accounting Standard;

    (b) a proposed disclosure requirement developed for the draft Standard, that is where there is a recognition and measurement difference between IFRS Accounting Standards and the *IFRS for SMEs* Accounting Standard;

    (c) an exception to the IASB's approach, that is an exception to the proposed disclosure requirement in (a) and (b) above; or

    (d) other topics (for example, comments about footnotes, Appendix A, general comments on the proposed disclosure requirements).

11. Stratifying the comments based on how the disclosure requirements were developed ensures that the approach to addressing each comment on the proposed disclosure requirements is consistent with how the IASB developed the proposed disclosure requirements. This would help to ensure that the overall basis of developing the new IFRS Accounting Standard is consistent.

12. For example, if a comment is in stratum (a) in paragraph 10 of this paper this immediately shows that the proposed disclosure requirement is from the *IFRS for SMEs* Accounting Standard.[2] The staff think deleting disclosure requirements in response to comments in this category would have a high hurdle as doing so would cause the draft Standard to deviate from the *IFRS for SMEs* Accounting Standard. To make the decision on whether to delete a comment the staff would apply Step 2 of the process (as set out in paragraphs 13–14 of this paper).

[2] Paragraph BC29 of the Basis for Conclusions on the Exposure Draft *Subsidiaries without Public Accountability: Disclosures*.

Step 2: Assessing each comment against a set of factors

13. Having stratified the comments, the staff recommend assessing the rationale provided by the respondent against a set of factors. The proposed factors are:

Factor	Description
Principles on users' information needs set out in BC157[3]	Whether the comment provides further information on applying the principles on users' information needs.
Cost–benefit considerations	Whether the comment is supported by a cost-benefit assessment (ie, whether the comment would lead to a better balance between the costs and benefits of applying the requirements).
Distribution of the comment	Whether the comment is concentrated in a particular jurisdiction or a particular stakeholder group.
Overall usefulness of information	Whether the overall disclosure requirements for a topic or a Standard provides useful information to users of subsidiaries' financial statements.
IASB decision(s)	Whether the comment has been specifically discussed by the IASB and whether the feedback provides further insights.

14. Applying the factors in paragraph 13, the staff would formulate a recommendation to the IASB on whether there is sufficient evidence to add, delete or clarify the proposed disclosure requirement in the draft Standard.

Step 3: Recommendation

15. After applying Step 1 and Step 2, the staff will make a recommendation to the IASB. The staff would provide the IASB with:

(a) a summary of the comments; and

(b) disclosure requirements identified as those that the staff recommend should be changed—added, deleted, or clarified—in the draft Standard.

16. As set out in paragraph 15(b), the staff would only present to the IASB those proposed disclosure requirements that the staff would recommend be added, deleted, or clarified.

[3] '*Principles of users' information needs set out in BC157'* refers to paragraph BC157 of the Basis for Conclusions on the *IFRS for SMEs* Accounting Standard and paragraph BC34 of the Basis for Conclusions on the Exposure Draft *Subsidiaries without Public Accountability: Disclosures*.

Staff recommendation and question for the IASB

17. The staff recommend the process in paragraphs 10–16 to address the comments on the proposed disclosure requirements in the draft Standard:

    (a) Step 1—stratify the comments on the proposed disclosure requirements based on how they were developed;

    (b) Step 2—assess comments against a set of factors: consider principles on users' information needs of non-publicly accountable entities' financial statements, cost–benefit considerations, distribution of the comment, overall usefulness of information and previous IASB discussions and decisions on the topic; and

    (c) Step 3—recommend changes to the proposed disclosure requirements in the draft Standard.

Question for IASB members
Does the IASB agree to apply staff's recommended process summarised in paragraph 17 of this paper?