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## IASB<sup>®</sup> meeting

Date	<b>January 2023</b>
Project	<b>Disclosure Initiative—<i>Subsidiaries without Public Accountability: Disclosures</i></b>
Topic	<b>Maintenance of the Standard</b>
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS<sup>®</sup> Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB *Update*.

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## Purpose of this paper

1. This paper discusses the feedback on the International Accounting Standards Board's (IASB) proposal on how to maintain the IFRS Accounting Standard (Standard) set out in the Exposure Draft [Subsidiaries without Public Accountability: Disclosures](#) (Exposure Draft). In particular, this paper discusses when to update the Standard for new disclosure requirements or amendments to disclosure requirements arising from new IFRS Accounting Standards or amendments to IFRS Accounting Standards (ongoing maintenance of the Standard).
2. In this paper, the term 'eligible subsidiary' refers to entities that meet the requirements in paragraph 6 of the draft Standard and are therefore eligible to apply the Standard.

## Summary of staff recommendation

3. The staff recommend that the IASB confirm its proposal to consider amendments to the Standard when it publishes an exposure draft of a new or amended IFRS Accounting Standard as this facilitates consideration of the amendments to the Standard at the same time as the related amendments to IFRS Accounting Standards are being discussed.

## Structure of the paper

4. This paper is structured as follows:
  - (a) background (see paragraphs 6–11);
  - (b) feedback (see paragraphs 12–13);
  - (c) staff analysis (see paragraphs 14–24);
  - (d) staff recommendation and question for the IASB (see paragraph 25).
5. The appendix to this paper includes extracts from the Basis for Conclusions on the Exposure Draft.

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## Background

### Question in the Invitation to Comment

6. Question 10 of the Invitation to Comment on the Exposure Draft asked for any other comments on the proposals in the draft Standard or other matters in the Exposure Draft. In responding to this question some respondents commented on how the draft Standard should be maintained.

### IASB's proposal in the Exposure Draft

7. In developing the Exposure Draft, the IASB considered when to update the draft Standard for any new disclosure requirements or amendments to disclosure requirements arising from new IFRS Accounting Standards or amendments to IFRS Accounting Standards.
8. The IASB said it would consider proposing amendments to the draft Standard when it publishes an exposure draft of a new or amended IFRS Accounting Standard as this facilitates consideration of the amendments to the draft Standard at the same time as the related amendments to IFRS Accounting Standards are being discussed (see paragraph BC91 of the Basis for Conclusions on Exposure Draft).

### Recent discussion related to updating the Standard

9. At its June 2022 meeting, the IASB discussed when to consider amendments to IFRS Accounting Standards that were not considered when the draft Standard was developed.<sup>1</sup>
10. At that meeting, the IASB tentatively decided to:<sup>2</sup>
- (a) include in the Standard disclosure requirements in IFRS Accounting Standards issued as at 28 February 2021; and
  - (b) consider amendments to the disclosure requirements in IFRS Accounting Standards issued after 28 February 2021 after the Standard is issued.
11. The IASB did not discuss ongoing maintenance of the Standard at that meeting.

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<sup>1</sup> See Agenda Paper 31 [Project direction and plan for redeliberations](#) of the June 2022 IASB meeting.

<sup>2</sup> See [IASB Update](#) of the June 2022 IASB meeting.

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## Feedback<sup>3</sup>

12. Most respondents who commented agreed with IASB's proposal on how it would maintain the Standard in the future. These respondents said:
- (a) the Standard should be updated as soon as disclosure requirements in other IFRS Accounting Standards are added or amended, instead of a periodic update as applied to the *IFRS for SMEs Accounting Standard*;
  - (b) when proposing amendments to the other IFRS Accounting Standards, the IASB should consult with stakeholders whether consequential amendments to the new Standard should be considered; and
  - (c) the IASB's proposal on ongoing maintenance of the Standard:
    - (i) would not delay the benefit of any improvements to other IFRS Accounting Standards for eligible subsidiaries; and
    - (ii) would avoid unintended consequences from early application of amendments to other IFRS Accounting Standards.
13. In addition, some of these respondents commented on the implications of how the Standard would be maintained on the *IFRS for SMEs Accounting Standard*. Suggestions from respondents included:
- (a) the IASB should clarify how the project interacts with the *IFRS for SMEs Accounting Standard*, specifically how the disclosure requirements developed for each standard would affect the other standard.
  - (b) any relevant changes in the Standard should be reflected in the *IFRS for SMEs Accounting Standard* (and vice versa) because the information needs of users of financial statements prepared under both standards are likely to be similar.
  - (c) the IASB should limit the differences in the disclosure requirements proposed in the draft Standard with the *IFRS for SMEs Accounting Standard* when the recognition and measurement requirements are the same. If the IASB does not introduce the disclosures proposed in the draft Standard into the *IFRS for SMEs Accounting Standard* later, the Standard might undermine the legitimacy of the *IFRS for SMEs Accounting Standard*. The application of the *IFRS for SMEs Accounting Standard* could decrease.

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<sup>3</sup> See [Agenda Paper 31A Feedback from comment letters](#) and [Agenda Paper 31B Feedback from outreach events](#) of the April 2022 IASB meeting.

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## Staff Analysis

### Maintenance of the Standard

14. The IASB's proposal in the Exposure Draft to consider proposing amendments to the draft Standard when it publishes an exposure draft of a new or amended IFRS Accounting Standard is supported by most respondents who commented on this topic.
15. The staff think the feedback supports the IASB's view that this approach maintains consistency between the disclosure requirements in the Standard and IFRS Accounting Standards and does not delay the benefits of providing reduced disclosure requirements to eligible subsidiaries applying the Standard.
16. Furthermore, such an approach is efficient—it saves time and resources of the IASB and its stakeholders. Proposing amendments to the Standard when the IASB publishes an exposure draft of a new or amended IFRS Accounting Standard facilitates consideration of amendments to the Standard alongside the amendments to IFRS Accounting Standards. The alternative would be to wait until after the amendments have been finalised and for there to be a separate consultation on amendments to the Standard.
17. For the maintenance of the Standard under this approach, the IASB would start with the disclosure requirements to be included in the exposure draft of a new or amended IFRS Accounting Standard and apply the same principles it uses when developing the disclosure requirements in the *IFRS for SMEs* Accounting Standard discussed in paragraph BC157 of the Basis for Conclusions accompanying the *IFRS for SMEs* Accounting Standard. This would be consistent with the approach used to develop the disclosure requirements in the Exposure Draft for topics or accounting policy options omitted from the *IFRS for SMEs* Standard (see paragraphs BC33–BC34 of the Basis for Conclusions accompanying the Exposure Draft).

### Interaction with the *IFRS for SMEs* Accounting Standard

18. If the IASB confirms its proposal for the ongoing maintenance of the Standard, a question arises on whether and how this approach affects the *IFRS for SMEs* Accounting Standard. Given that subsidiaries eligible to apply the Standard are a subset of entities that can apply the *IFRS for SMEs* Accounting Standard it is questionable why the disclosure requirements of the standards should differ when recognition and measurement of the standards are the same.
19. The IASB has confirmed its approach to developing the disclosure requirements in the Standard.<sup>4</sup> Namely, where the recognition and measurement requirements of IFRS Accounting Standards and the *IFRS for SMEs* Accounting Standard are the same, the IASB used the disclosure requirements in

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<sup>4</sup> See [Agenda Paper 31B Approach to developing the proposed disclosure requirements](#) and [IASB Update](#) of the October 2022 IASB meeting.

the *IFRS for SMEs* Accounting Standard as the user information needs are the same. When recognition and measurement requirements differ, the IASB used the principles in paragraph BC157 of the *IFRS for SMEs* Accounting Standard to reduce the disclosure requirements.

20. During its second comprehensive review of the *IFRS for SMEs* Accounting Standard, the IASB decided that it would continue with its alignment approach. This approach treats alignment with IFRS Accounting Standards as the starting point for developing requirements in the *IFRS for SMEs* Accounting Standard, and applies the principles of relevance to SMEs, simplicity and faithful representation, including the assessment of costs and benefits, in determining whether and how that alignment should take place. The staff think that in future periodic reviews of the *IFRS for SMEs* Accounting Standard the IASB would continue to apply these alignment principles to propose amendments to the *IFRS for SMEs* Accounting Standard. If the outcome of applying the alignment principles is that the IASB proposes amendments to align the *IFRS for SMEs* Accounting Standard with the recognition and measurement requirements of a new or amended IFRS Accounting Standard, then the staff suggest that the IASB propose amendments to the disclosure requirements of the *IFRS for SMEs* Accounting Standard to align with the Standard. This is because, as noted in paragraph 17 of this agenda paper, the IASB will have applied the principles in paragraph BC157 of the *IFRS for SMEs* Accounting Standard to develop propose amendments to the Standard. Furthermore, the IASB will have received feedback on those disclosure requirements.
21. For example, if the IASB, in a future review, propose to align the requirements for leases in the *IFRS for SMEs* Accounting Standard with IFRS Accounting Standards (ie IFRS 16 *Leases*), the IASB could leverage the work it already completed in developing the proposed disclosure requirements for IFRS 16 in the Standard.
22. The proposed approach for ongoing maintenance of the Standard would mean that the Standard is updated *regularly* (as often as amendments are made to disclosure requirements in IFRS Accounting Standards) while the *IFRS for SMEs* Accounting Standard is updated *periodically*, not more frequently than approximately once every three years (see paragraph P16 of *Preface to the IFRS for SMEs* of the *IFRS for SMEs* Accounting Standard).
23. The disclosure requirements in the Standard and the *IFRS for SMEs* Accounting Standard would be developed using the same principles (applying paragraph BC157 of the Basis for Conclusions accompanying the *IFRS for SMEs* Accounting Standard) and hence would not be expected to diverge from each other (in areas where there are no recognition and measurement differences). However, given that the Standard would be updated regularly, a question might arise regarding whether entities applying the *IFRS for SMEs* Accounting Standard would need to track ongoing amendments to the Standard, and provide feedback on the related consultations, because those amendments would be incorporated during the periodic updates of the *IFRS for SMEs* Accounting Standard.

24. The staff understand the concern that entities applying the *IFRS for SMEs* Accounting Standard may need to track ongoing amendments to the Standard. However, all proposed amendments to the *IFRS for SMEs* Accounting Standard would be exposed for public comment as part of the omnibus exposure draft of proposed amendments to the *IFRS for SMEs* Accounting Standard issued during each periodic review. The IASB could receive feedback on that exposure draft that it should reconsider the proposed disclosures for the *IFRS for SMEs* Accounting Standard, and also reconsider the disclosure requirements in the Standard. Therefore, the staff do not think that entities applying the *IFRS for SMEs* Accounting Standard need to track proposed amendments to the Standard. The staff also think that this approach provides the best flexibility to address the needs of all stakeholders rather than restricting the maintenance of either standard.

### Staff recommendation and question for the IASB

25. The staff recommend that the IASB confirm its proposal to consider amendments to the Standard when it publishes an exposure draft of a new or amended IFRS Accounting Standard to facilitate consideration of the appropriate amendments to the Standard when the related amendments to IFRS Accounting Standards are being discussed.

#### Question for IASB members

Does the IASB agree with the staff recommendation set out in paragraph 25 of this paper?

## Appendix A—Extract from the Basis of Conclusion on the Exposure Draft

### Maintaining the draft Standard

- BC87 If the Board finalises the proposals in the Exposure Draft and issues the draft Standard, it would need to decide when to update the draft Standard for any new disclosure requirements or amendment to disclosure requirements arising from new IFRS Standards or amendments to IFRS Standards.
- BC88 One approach would be for the Board to update the draft Standard periodically, similar to the way it updates the *IFRS for SMEs* Standard (no more frequently than every three years, usually after a comprehensive review). However, that approach would delay the benefits for subsidiaries applying the draft Standard. For example, if the Board were to issue a new IFRS Standard containing new disclosure requirements, subsidiaries applying the draft Standard would need to apply all of those new disclosure requirements until the draft Standard is updated (as Appendix A of the draft Standard would not list those new disclosure requirements).
- BC89 Alternatively, the Board could propose amendments to the draft Standard when it publishes an exposure draft of a new or amended IFRS Standard. Such an approach would require the Board to consider proposals to amend the draft Standard in the same period that amendments to IFRS Standards are being considered.
- BC90 To minimise the need for updating the draft Standard, the Board could amend the draft Standard only after the Board has issued a new IFRS Standard or amendment to an IFRS Standard. This approach would delay the benefit of any reduced disclosure requirements that the Board might subsequently propose for subsidiaries applying the draft Standard, until the Board has updated the draft Standard. This approach could result in subsidiaries applying the draft Standard providing disclosures required by the new or amended IFRS Standard that are subsequently not required when the draft Standard is updated.
- BC91 The Board decided it would consider proposing amendments to the draft Standard when it publishes an exposure draft of a new or amended IFRS Standard to facilitate consideration of the appropriate amendments to the draft Standard when the related amendments to IFRS Standards are being discussed.