IFRS Accounting

Staff paper

Agenda reference: 31A

IASB® meeting

Date	**July 2023**
Project	**Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures**
Topic	**Effective date and transition**
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Purpose of this paper

1. The purpose of this paper is for the International Accounting Standards Board (IASB) to decide on the effective date and transition to the IFRS Accounting Standard *Subsidiaries without Public Accountability: Disclosures* (new Standard).

2. In this paper, the term 'eligible subsidiary' refers to entities that meet the requirements in paragraph 6 of the draft Standard.

Summary of staff recommendation

3. The staff recommends that the IASB:

   (a) permit an eligible subsidiary to apply the new Standard on the same date as the new IFRS Accounting Standard *General Presentation and Disclosures* (PFS Standard);

   (b) permit earlier application of the new Standard and require an eligible subsidiary to disclose that fact; and

(c) confirm the proposed requirements for comparative information when an eligible subsidiary elects to apply the new Standard (or revokes that election) as set out in paragraphs 10–11 of the draft Standard in the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* (draft Standard).

4. In addition, the staff recommends that as part of the transition requirements in the new Standard, the IASB:

(a) confirm that disclosure requirements issued since the draft Standard was developed remain applicable; and

(b) specify the applicable disclosure requirements if an eligible subsidiary applies the new Standard early but does not apply the PFS Standard early.

Structure of the paper

5. The paper is structured into two parts:

(a) effective date (paragraphs 6–13);

(b) transition requirements (paragraphs 14–25);

(c) interaction between the new Standard and the PFS Standard (paragraphs 26–31); and

(d) staff recommendation and question to the IASB (paragraphs 32–33).

Effective date

Proposal in the Exposure Draft

6. Appendix B of the draft Standard set out the proposed effective date:

> An entity may elect to apply this [draft] Standard for reporting periods beginning on or after [18–24 months from the date of publication]. Earlier application is permitted. In accordance with paragraph 10 of this [draft] Standard if an entity applies this [draft] Standard in the current period but not in the immediately preceding period, the entity shall provide comparative information in respect of the preceding period for all amounts reported in the current period's financial statements, unless this [draft] Standard or another IFRS Standard permits or requires otherwise.

7. In proposing the effective date, the IASB took into consideration paragraph 6.35 of the *Due Process Handbook* which notes:

> … The mandatory effective date is set so that jurisdictions have sufficient time to incorporate the new requirements into their legal systems and those applying the Standards have sufficient time to prepare for the new requirements.

8. There were no comments received on the effective date as proposed in the draft Standard.

Staff analysis

9. The new Standard will simplify the preparation of eligible subsidiaries' financial statements by permitting the application of IFRS Accounting Standards with reduced disclosure requirements. Unlike most other new and amended IFRS Accounting Standards, the new Standard does not introduce new requirements—in fact it provides relief to eligible subsidiaries. This suggests a shorter period from the date of issuing the new Standard to the effective date could be acceptable.

10. Whilst there were no comments received on the effective date as proposed in the draft Standard, there was some feedback from stakeholders about the interaction of the draft Standard with local regulations.[1] The feedback indicates some jurisdictions might need time to incorporate the new Standard into their regulations. This suggests the normal period of time between issuing the new Standard to the effective date could be appropriate.

11. The IASB generally allows at least 12–18 months between the issuance of an IFRS Accounting Standard and its effective date. For most recently issued IFRS Accounting Standards, IFRS 17 *Insurance Contracts* has more than five years, and IFRS 16 *Leases* and IFRS 15 *Revenue from Contracts with Customers* has almost three years between their issuance and effective date. However, we do not think the transition periods for these standards are comparable to new Standard because as noted in paragraph 9 of this paper, the new Standard does not introduce significant new requirements to eligible subsidiaries that elect to apply the new Standard.

[1] See paragraphs 25–27 of Agenda Paper 31A *Feedback from comment letters* and paragraph 15 of Agenda Paper 31B *Feedback from outreach events* of the April 2022 IASB meeting, and Agenda Paper 7 *Interaction between local regulations and the proposed IFRS Accounting Standard* and ASAF meeting summary of the July 2022 ASAF meeting.

12. The staff's view is that 12–18 months is a reasonable period for a jurisdiction to adopt the new Standard and consider implications into their regulations. For jurisdictions where there is no, or less, concern on the interaction of the new Standard with local regulations, they will not be disadvantaged if early application of the new Standard is permitted.

13. It is envisaged that the new Standard will be issued in the first half of 2024, therefore an effective date for periods ending after 31 December 2026 could be proposed. However, before recommending this date to the IASB the staff has considered the interaction between the new Standard and the PFS Standard, see paragraphs 26–31 of this paper.

Transition requirements

Proposal in the Exposure Draft

14. In developing the draft Standard, the IASB decided not to propose transition provisions or disclosure requirements in the draft Standard for a subsidiary that had applied IFRS Accounting Standards in the preceding period. Paragraphs BC72–BC74 of the Basis for Conclusions on the Exposure Draft explains the IASB's considerations.

> BC72 ... Paragraphs BC73–BC74 discuss whether the draft Standard should include transition provisions for a subsidiary that applied IFRS Standards in the preceding period and applies the draft Standard for the first time in the current period.
>
> BC73 When such a subsidiary applies the draft Standard for the first time, its financial statements will contain fewer disclosures than in the preceding period. The subsidiary might need to restate some comparative information to be consistent with the information reported in the current

period. The subsidiary would also be required to disclose that it has applied the draft Standard...

BC74 Considering the effects of applying the draft Standard for the first time on a subsidiary's financial statements as discussed in paragraph BC73 and noting that the subsidiary would have applied IFRS 1 in a previous period, the Board decided not to propose transition provisions or disclosure requirements in the draft Standard for a subsidiary that had applied IFRS Standards in a preceding period.

IASB tentative decisions related to transition

IFRS 1 First-time Adoption of International Financial Reporting Standards *and requirements in IAS 8* Accounting Policies, Changes in Accounting Estimates and Errors

15. In January 2023, the IASB made tentative decisions on transition-related matters (on electing to apply the new Standard or revoking of that election) and its interaction with IFRS 1 *First-time Adoption of International Financial Reporting Standards* and requirements in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*[2]. The tentative decisions are summarised in Appendix A of Agenda Paper 31B *Due Process* of this meeting.

16. The IASB confirmed an eligible subsidiary that elects to apply the new Standard (or revokes that election):

    (a) does not meet the definition of a first-time adopter (as defined in IFRS 1); and

    (b) does not apply the requirements on changes in accounting policies in IAS 8.

[2] See IASB *Update* of the January 2023 IASB meeting.

New disclosure requirements not considered in the draft Standard

17. In June 2022, the IASB tentatively decided:

    (a) to include in the new IFRS Accounting Standard disclosure requirements of IFRS Accounting Standards issued as at 28 February 2021; and

    (b) to consider amendments to the disclosure requirements in IFRS Accounting Standards issued after 28 February 2021 after the new Standard is issued.

18. In May 2023, the IASB tentatively decided:

    (a) disclosure requirements about the transition to a new or amended IFRS Accounting Standard set out in that new or amended Standard apply to eligible subsidiaries; and

    (b) until the IASB issues an amendment to the new Standard, eligible subsidiaries would be required to comply with disclosure requirements in amendments to IFRS Accounting Standards that have been issued after the publication of the draft Standard.

19. Agenda Paper 31D *New disclosure requirements in IFRS Accounting Standards* of the May 2023 IASB meeting, noted new disclosure requirements in the following amendments to IFRS Accounting Standards would remain applicable:

    (a) IAS 1 *Presentation of Financial Statements* as a result of the Non-current Liabilities with Covenants project;

    (b) IAS 12 *Income Taxes* as a result of the International Tax Reform—Pillar Two Model Rules project;

    (c) IFRS 7 *Financial Instruments: Disclosures* and IAS 7 *Statement of Cash Flows* as a result of the Supplier Finance Arrangements project; and

    (d) IAS 21 *The Effects of Changes in Foreign Exchange Rates* as a result of the Lack of Exchangeability project.

20. The IASB will consider whether to reduce the disclosure requirements in the amendments to IFRS Accountings Standards set out in paragraph 19 of this paper plus those disclosure requirements in the prospective Standards arising from the *General Presentation and Disclosures* and the *Rate-regulated Activities* Exposure Drafts after the new Standard is issued. The staff plans to bring proposals to the IASB to add a project to its work-plan for a 'catch-up Exposure Draft' at a future date.

Comparative information

21. Paragraphs 10–11 of the draft Standard set out the proposals for comparative information an eligible subsidiary provides on applying the new Standard (or on revoking that election).

> If an entity applies this [draft] Standard in the current period but not in the immediately preceding period, the entity shall provide comparative information in respect of the preceding period for all amounts reported in the current period's financial statements, unless this [draft] Standard or another IFRS Standard permits or requires otherwise. The entity shall include comparative information for narrative and descriptive information if it is relevant to understanding the current period's financial statements. The entity applies the disclosure requirements in this [draft] Standard to determine the disclosures required for the immediately preceding comparative period.
>
> An entity that applied IFRS Standards in the current and preceding periods and elected to apply this [draft] Standard in the preceding period but elects not to apply this [draft] Standard in the current period, shall provide comparative information in respect of the preceding period for all amounts reported in the current period's financial statements, unless another IFRS Standard requires or permits otherwise. The entity shall include comparative information for narrative and descriptive information

if it is relevant to understanding the current period's financial statements. The fact that this [draft] Standard did not require the disclosure of amounts in the preceding period that are disclosed in the current period is not a reason to omit comparative information.

22. Only a few respondents commented on the proposed requirements for comparative information in paragraphs 10 and 11 of the draft Standard. These respondents were supportive of the proposed requirements.

Staff analysis

23. An eligible subsidiary electing to apply the new Standard would previously have applied a local GAAP or the *IFRS for SMEs* Accounting Standard or applied IFRS Accounting Standards.

(a) An eligible subsidiary electing to apply the new Standard that previously applied a local GAAP or the *IFRS for SMEs* Accounting Standard would apply IFRS 1 on electing to apply the new Standard for the first time. Such financial statements would be the eligible subsidiary's 'first IFRS financial statements' as defined in IFRS 1[3]. IFRS 1 sets out requirements, including transition requirements, that an eligible subsidiary has to comply with in order to prepare its first IFRS financial statements.

[3] First IFRS financial statements is defined in IFRS 1 as 'the first annual financial statements in which an entity adopts International Financial Reporting Standards, by an explicit and unreserved statement of compliance with IFRSs'.

(b) An eligible subsidiary electing to apply the new Standard and that already applies IFRS Accounting Standards:

(i) would not apply the requirements in IAS 8; and

(ii) is not required to present a third statement of financial position (that is, a second comparative statement of financial position) as at the beginning of the earliest period presented.

24. As discussed in paragraphs 16–17 of Agenda Paper 31D *New disclosure requirements in IFRS Accounting Standards* of the May 2023 IASB meeting, the IASB included in the Exposure Draft (in Appendix A) a list of disclosure requirements that an eligible subsidiary applying the new Standard would not be required to apply. At its meeting in October 2022, the IASB tentatively decided to revise its proposals and omit Appendix A from the new Standard.

25. As a consequence of omitting Appendix A of the draft Standard, the transition requirements to the new Standard will need to list those disclosure requirements in IFRS Accounting Standards that will remain applicable until a 'catch-up' amendment to the new Standard is issued (see paragraph 18(b)).

Interaction between the new Standard and the PFS Standard

26. The Exposure Draft *General Presentation and Disclosures* proposes a new IFRS Accounting Standard that will replace IAS 1 *Presentation of Financial Statements*. The PFS Standard will:

(a) relocate disclosure requirements from IAS 1 to either the PFS Standard or to other IFRS Accounting Standards; and

(b) introduce new disclosure requirements in the PFS Standard.

Staff analysis

27. The disclosure requirements proposed in the draft Standard under the IAS 1 subheading (see paragraphs 110–127 of the draft Standard) are based on IAS 1 and were not updated for the Exposure Draft *General Presentation and Disclosures*. It is expected that the new PFS Standard will be issued before the new Standard is issued. Consequently, the staff think the draft Standard should be updated to be based on the new PFS Standard.

Updating the proposed disclosure requirements in the draft Standard

28. Updating the proposed disclosure requirements for the PFS Standard would not involve adding or deleting any disclosure requirements to or from the draft Standard because these disclosure requirements have not been subject to due process. Updating will be restricted to amending the references; for example the Exposure Draft *General Presentation and Disclosures*:

    (a) proposed the disclosure requirements in paragraph 136A of IAS 1 on puttable financial instruments classified as equity will be relocated to IFRS 7 *Financial Instruments: Disclosures*. Those disclosure requirements were not proposed in the draft Standard and the IASB has not amended this proposal in its redeliberations on the individual disclosure requirements. In updating the draft Standard, the disclosure requirement would not be proposed under the subheading for IFRS 7.

    (b) disclosure requirements in IAS 1 that will be retained in the new Standard but will be relocated to IAS 8 by the PFS Standard, for example the disclosure requirement in paragraph 117 of IAS 1 on disclosure of accounting policy information, will also be relocated under the subheading IAS 8 in the new Standard.

29. As it is expected that the PFS Standard will be issued before the new Standard is issued and given that both these new IFRS Accounting Standards are likely to permit early adoption, a question arises on the interaction between these two new IFRS Accounting Standards. The following scenarios could arise:

    (a) An eligible subsidiary early adopts the PFS Standard but does not early adopt the new Standard. In this scenario the new Standard needs to include disclosure requirements based on the PFS Standard.

    (b) An eligible subsidiary early adopts both new IFRS Accounting Standards simultaneously. In this scenario the new Standard needs to include disclosure requirements based on the PFS Standard.

    (c) An eligible subsidiary early adopts the new Standard but does not early adopt the PFS Standard. In this scenario the new Standard needs to include disclosure requirements for IAS 1.

Aligning the effective date with the PFS Standard

30. At this month's meeting, the IASB will discuss the effective date for the PFS Standard. Although the staff consider there is no need for a long transition period for the new Standard, we also think it would be simpler for preparers if the new IFRS Accounting Standards had the same effective date. For the PFS Standard, the project team is recommending to the IASB an effective date of 1 January 2027 as the PFS Standard's effective date. As noted in paragraph 10 of this paper, a normal period of time for transition would give time for jurisdictions to consider implications of the new Standard on their local regulations. However, as the new Standard can be early adopted (and given the new Standard will be optional) the staff do not think a later effective date will affect those eligible subsidiaries that wish to early adopt the new Standard.

31. If the effective dates are the same but an eligible subsidiary wishes to early adopt the new Standard, the staff recommends that the IASB adds an appendix to the new Standard of the disclosure requirements that would be applicable. From the perspective of maintaining the new Standard, when the PFS Standard becomes effective the IASB could withdraw this appendix without affecting the main body of the new Standard.

Staff recommendation and question to the IASB

32. Based on the analysis in paragraphs 6–31, the staff recommends that the IASB:
    (a) align the effective date of the new Standard with the PFS Standard;
    (b) permit earlier application of the new Standard and require an eligible subsidiary to disclose that fact; and
    (c) confirm the proposed requirements for comparative information when an eligible subsidiary elects to apply the new Standard (or revokes that election) as set out in paragraphs 10–11 of the draft Standard.

33. In addition, the staff recommend that as part of the transition requirements, the IASB:
    (a) confirm that disclosure requirements issued since the draft Standard was developed remain applicable; and
    (b) specify the applicable disclosure requirements if an eligible subsidiary applies the new Standard early but does not apply the PFS Standard early.

Question for the IASB
Does the IASB agree with the staff recommendation set out in paragraphs 32–33 of this paper?