IFRS Accounting

Staff paper

Agenda reference: 31A

IASB® meeting

Date	**June 2023**
Project	**Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures**
Topic	**Feedback on proposed disclosure requirements in the Exposure Draft *Third Edition of the* IFRS for SMEs *Accounting Standard***
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Purpose of the paper

1. The purpose of this paper is for the International Accounting Standards Board (IASB) to discuss whether any of the feedback received on the disclosure requirements proposed as part of the second comprehensive review of the *IFRS for SMEs* Accounting Standard needs to be taken into consideration in finalising the new IFRS Accounting Standard *Subsidiaries without Public Accountability: Disclosures* ("the new Standard").

Structure of the paper

2. This paper is structured as follows:
   (a) background (paragraphs 3–8);
   (b) revenue (paragraphs 9–15);
   (c) fair value disclosures (paragraphs 16–20);
   (d) liabilities from financing activities reconciliation (paragraphs 21–25);
   (e) other disclosures (paragraphs 26–29);

(f) staff recommendation and questions for the IASB (paragraph 30); and

(g) Appendix A—Other comments by section of the SMEs ED.

Background

3. In March 2023 the IASB's discussion of the new Standard included agreement on its approach to maintaining the new Standard. Two decisions from this discussion are relevant to this paper. The IASB:

   (a) will assess separately the costs and benefits for eligible subsidiaries applying the new Standard and the costs and benefits for SMEs applying the *IFRS for SMEs* Accounting Standard.

   (b) will consider if feedback on the proposed disclosure requirements received as part of the consultation on the Exposure Draft *Third edition of the* IFRS for SMEs *Accounting Standard* ("SMEs ED") influences its tentative decisions in redeliberating the proposed disclosure requirements in the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* ("draft Standard").

4. As part of the second comprehensive review of the *IFRS for SMEs* Accounting Standard the SMEs ED was published in September 2022, with the comment period ending in March 2023. The SMEs ED proposes amendments to the *IFRS for SMEs* Accounting Standard to align with new IFRS Accounting Standards – in particular IFRS 13 *Fair Value Measurement* and IFRS 15 *Revenue from Contracts with Customers*. In proposing disclosures in the SMEs ED the IASB used the proposed disclosure requirements in the draft Standard, with any necessary adjustments for recognition and measurement differences, because these had been developed using the common principles for reducing disclosure requirements.

5. In effect this means stakeholders had in some areas two opportunities to comment on the same or very similar proposed disclosure requirements. The feedback on the individual proposed disclosure requirements in the draft Standard has been considered already. This paper reviews responses from comment letters on the SMEs ED that

relate to disclosure requirements, not because these responses directly affect the draft Standard, but rather to check for significant comments that have not previously been discussed by the IASB.

6. The discussions in this paper only relate to the possible effects on disclosure requirements in the new Standard, and do not assess the feedback as it relates to the *IFRS for SMEs* Accounting Standard. The possible effect on the third edition of the *IFRS for SMEs* Accounting Standard will be brought to the IASB for discussion as part of the process of redeliberation of the proposals in the SMEs ED. There is no commitment that the disclosure requirements in the two Standards are aligned.

7. Comments received could be categorised into:

   (a) Comments that are similar to those that were received and analysed on the draft Standard: where this is the case this paper cross refers to previous IASB discussions;

   (b) Comments relating to areas where there are recognition and measurement differences from the *IFRS for SMEs* Accounting Standard meaning that there may have already been a difference in the proposed disclosures, or it may be appropriate for such a difference to be introduced; and

   (c) Comments where there are no recognition and measurement differences and the comments have not previously been considered as part of the feedback on the draft Standard: these are treated in this paper as supplementary suggestions and discussed with reference to the principles applied for developing the disclosure requirements.

8. The proposed disclosures that attracted most responses related to revenue, fair value, and the liabilities arising from financing activities reconciliation supporting the statement of cash flows, and these are dealt with in paragraphs 9–25 of this paper.

Revenue – IFRS 15

Themes of comments received

9. The proposed disclosure requirements relating to revenue in the SMEs ED were broadly based on those proposed in the draft Standard because the IASB proposed to align the *IFRS for SMEs* Accounting Standard with IFRS 15. However, there are differences because the recognition and measurement requirements proposed in the SMEs ED are simplified from IFRS 15. All feedback on the proposed disclosure requirements in the SMEs ED needs to be considered in this light to assess whether it is relevant to the draft Standard.

Table 1—comments on relevant paragraphs

SMEs ED reference	Draft Standard reference	IFRS 15 reference	Comments
23.118	n/a	n/a	Suggestion to relocate the requirement to present contract assets and receivables separately from the disclosures segment. Not included in draft Standard as it was considered to be a matter of presentation not disclosure
23.121	89 (modified: draft Standard does not prescribe how revenue is to be disaggregated)	114, B89	Disaggregation – respondents suggested disaggregation should be between revenue from goods or services provided at a point in time and transferred over time.
23.123	92	116	Contract balance disclosures – respondents suggested deleting this disclosure because it does not add value for users

SMEs ED reference	Draft Standard reference	IFRS 15 reference	Comments
23.123(a) and (b)	92	116(a)-(b)	Suggestion to separate the requirements relating to contract assets and to contract liabilities
23.126	96	120 (simplified)	Disclosure of unsatisfied promises – respondents suggested deleting this disclosure on the grounds that the costs do not justify the benefits
23.127	98	128	Costs to obtain or fulfil a contract recognised as an asset; impairment. Respondents suggested deleting this disclosure because it does not add value for users
n/a	n/a	119(c)	Respondents suggested requiring additional disclosure of the nature of goods or services the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services

10. In addition to the comments on specific paragraphs, a number of respondents to the SMEs ED made general comments that the revenue related disclosures appeared excessive in relation to users' needs, with some references to benefits not exceeding costs.

11. The IASB discussed comments on the proposed disclosure requirements in the draft Standard relating to IFRS 15 at its May 2023 meeting and tentatively decided to revise the requirements by:

    (a) deleting paragraph 93 of the draft Standard, based on cost-benefit considerations and with the effect of aligning more closely with the proposed requirement in the SMEs ED; and

(b) adding a disclosure requirement based on paragraph 119(a) of IFRS 15, agreeing with the reasoning from BC354 of IFRS 15 that this would 'complement accounting policy disclosure requirements by requiring an entity to provide more descriptive information abouts its performance obligations'.

12. Agenda Paper 31A *Feedback on proposed disclosure requirements* of the May 2023 IASB meeting discusses other issues raised by respondents on the draft Standard relating to IFRS 15, which cover the comments on IFRS 15 considered against the principles for reducing disclosures. The IASB agreed with the staff recommendations in the May 2023 meeting.

13. In general, the comments received relating to revenue as part of the SMEs ED have either already been assessed against the principles as part of the review of feedback on the draft Standard, or relate to the balance of costs and benefits.

14. At its March 2023 meeting the IASB decided the balance of costs and benefits could be different for eligible subsidiaries than for the wider group of SMEs (see paragraph 3), and because the cost-benefit concerns were not raised by respondents relating to eligible subsidiaries, in the staff's view this supports the idea there is no need to consider changing the disclosure requirements proposed in the draft Standard for revenue.

Staff recommendation

15. The staff recommends that the IASB retain the proposed disclosure requirements relating to IFRS 15 in the draft Standard as revised by the IASB's tentative decision at its May 2023 meeting.

Fair value disclosures – IFRS 13

Themes of comments received

16. A few respondents said the proposed disclosure requirements in the new Section 12 of the SMEs ED are excessive, for example the benefits may not justify the costs of requiring SMEs to disclose information by hierarchy level. In contrast, a few respondents asked for additional disclosures from IFRS 13.

17. The table below sets out additional disclosures suggested by respondents to the *IFRS for SMEs* Accounting Standard and cross references these to similar issues that have already been discussed in relation to the draft Standard.

Table 2—additional disclosures suggested relating to IFRS 13

Disclosure suggested by respondents to the SMEs ED	Status in draft Standard and subsequent discussion
If the highest and best use for non-financial assets differs from its current use (paragraph 93(i) of IFRS 13)	This disclosure was not proposed in the draft Standard. The suggestion to introduce to the draft Standard a requirement based on paragraph 93(i) of IFRS 13 was rejected by the IASB as there was insufficient link to any of the principles for developing reduced disclosures (see paragraphs A5.16 – A5.18 of Agenda Paper 31A of the March 2023 IASB meeting).
When an entity applies the proposed paragraph 12.21, disclose the last date when fair value was determined for the affected assets and state [the entity's] specific reasons why fair value has not been determined since	The disclosures from paragraphs 12.18 – 12.21 of the SMEs ED relate to a simplification to recognition and measurement in Section 12 of the SMEs ED and were therefore not proposed in the draft Standard. No comments were received suggesting that disclosures of this nature should be included in the draft Standard. For further explanation see paragraph 19 below.
Full reconciliation of movements in fair value	Paragraph 12.29 of the SMEs ED is based on paragraph 80 of the draft Standard, which requires disclosures of total gains or losses

Disclosure suggested by respondents to the SMEs ED	Status in draft Standard and subsequent discussion
measurements classified in level 3 of the fair value hierarchy	recognised in profit or loss and other comprehensive income rather than the full reconciliation suggested in this comment. Comments on paragraph 80 of the draft Standard were discussed in paragraphs A5.8 – A5.15 of Agenda Paper 31A in the IASB's April 2023 meeting. The disclosures in paragraph 80 of the draft Standard were considered supportable based on the principle of disaggregation and no further information has been received to contradict this. The IASB tentatively decided to retain paragraph 80 of the draft Standard.
Change in valuation technique (paragraph 93(d) of IFRS 13) – additional detail in movements	These comments relate to paragraph 12.28 of the SMEs ED, which was based on paragraph 79 of the draft Standard. Similar comments, as they relate to the draft Standard were discussed in paragraphs A5.1- A5.6 of AP31A in the IASB's April 2023 meeting. The IASB concluded that the disclosure requirements in paragraph 93(d) of IFRS 13 should not be added to the draft Standard as it could not identify which of the principles for reducing disclosures would support introducing these requirements.

18. It can be seen from this table that all comments on the SMEs ED that related to content that is also included in the draft Standard relate to areas that have already been considered by the IASB in previous meetings or were not discussed because they had not been raised in comment letters; no further principles-based justification was provided for adding these.

19. Comments relating to paragraphs 12.18–12.21 of the SMEs ED are not relevant to the draft Standard because these proposed disclosures relate to a simplification for recognition and measurement. The SMEs ED allows some simplifications from

measuring assets and liabilities at fair value where this is not reliably measurable, and therefore disclosure requirements relating to this situation had to be added. For the draft Standard, recognition and measurement is that of full IFRS Accounting Standards, as these exemptions are not available the related disclosure requirements are not relevant.

Staff recommendation

20. The staff recommends that the IASB retain the proposed disclosure requirements in the draft Standard for IFRS 13 as no new information has been received to suggest that further disclosure requirements are needed.

Liabilities from financing activities reconciliation – IAS 7

Themes of comments received

21. Some respondents said that the proposed disclosure requirement in paragraph 7.19A of the SMEs ED, which proposes a reconciliation for liabilities arising from financing activities, would be onerous for SMEs and only provide limited benefits for users. A few of these respondents commented that the proposed reconciliation does not provide additional information about an entity’s cash flows and liquidity, and most SMEs do not have complex financial liabilities with non-cash changes. Put another way, the comments from respondents in this matter were mainly focussed on the assessment of costs against benefits, rather than on a perceived issue with the application of the principles.

22. The requirements proposed for paragraph 7.19A of the SMEs ED were based on paragraph 130 of the draft Standard, which was based on paragraphs 44A–44E of IAS 7 *Statement of Cash Flows*. Respondents to the draft Standard also expressed some concerns about this disclosure requirement, and these were discussed by the IASB at its April 2023 meeting. Some respondents had suggested deleting paragraph 130 on

the grounds the information was not useful; others had asked for clarification of why it was considered useful.

23. The main reason for questioning whether paragraph 130 of the draft Standard would provide useful information was an observation that eligible subsidiaries rely on their group for financing, so the subsidiary as a standalone entity did not have a meaningful standalone position. However, in the staff's view, since intragroup financing loans would be included in the reconciliation, this gives information to users on the financing arrangements between the eligible subsidiary, its parent and other group entities. Because of this, the IASB tentatively decided to retain paragraph 130 in the new Standard.

24. The responses from the second comprehensive review of the *IFRS for SMEs* Accounting Standard do not give new information that would change this position. It has already been noted that there could be situations when applying the reduced disclosure principles will give different answers for the new Standard than for the *IFRS for SMEs* Accounting Standard, primarily because the balance of costs and benefits may be different. In this case, the information that could include intragroup financing positively adds to information that would be included in the comparable reconciliation in the consolidated financial statements, which gives a benefit that may not be relevant to entities applying the *IFRS for SMEs* Accounting Standard.

Staff recommendation

25. The staff recommends that the IASB retain the proposed disclosure requirements in the draft Standard for IAS 7, in particular the requirement in paragraph 130 to provide a reconciliation of opening and closing liabilities relating to financing activities.

Other disclosures

Themes of comments received

26. Respondents to the SMEs ED had comments relating to most other sections as well as those discussed elsewhere in this paper. These comments, with brief responses, are summarised in Appendix A.

27. In some cases, described in the table in Appendix A, there is a recognition and measurement difference between the IFRS Accounting Standards and the *IFRS for SMEs* Accounting Standard, so comments on the disclosure requirements are not considered further, as differences are already expected (see paragraph 7(b)).

28. Topics that have already been discussed because of the feedback on the draft Standard are referred in the table to the Agenda Paper in which they were addressed.

Staff recommendation

29. The staff recommends that the IASB retain the proposed disclosure requirements in the draft Standard for all the topics in the table in Appendix A.

Staff recommendation and questions for the IASB

Staff recommendation

30. The staff recommends that the IASB do not make further changes to the proposed disclosure requirements in the draft Standard based on comments received on the Exposure Draft *Third edition of the* IFRS for SMEs *Accounting Standard*.

Questions for the IASB
1. Does the IASB have any comments on the analysis in this paper? 2. Does the IASB agree with the staff recommendations in paragraph 30?

Appendix A – Other comments by section of the SMEs ED

IFRS for SMEs section	Draft Standard reference	Suggestions	Remarks
Section 3 *Financial statement presentation*	No equivalent paragraphs	Requirements about aggregation and materiality may be too demanding – suggest deleting these	The IASB discussed the approach to materiality in its May 2023 meeting[1] and agreed to retain paragraph 16 of the draft Standard on materiality and, where necessary, additional disclosures, noting too that the new Standard is part of IFRS Accounting Standards and entities in its scope are therefore also in the scope of Practice Statement 2.
Section 9 *Consolidated and separate financial statements*	70(a) and (b)	Remove requirement to disclose details regarding gain or loss when parent loses control of a subsidiary	The IASB discussed in May 2023 (Agenda Paper 31A[2], paragraphs A4.11-A4.14) comments suggesting the deletion of paragraph 70 and concluded that it should be retained.
Section 10 *Accounting policies,*	124	Add disclosures about estimates or significant judgements	These suggested disclosure requirements are already included in paragraph 124 of the draft Standard, so no further changes are needed.

[1] See Agenda Paper 31B Paragraph 16 of the draft Standard and IASB Update of the May 2023 IASB meeting.
[2] See Agenda Paper 31A Feedback on proposed disclosure requirements and IASB Update of the May 2023 IASB meeting

IFRS for SMEs section	Draft Standard reference	Suggestions	Remarks
estimates and errors			
Section 11 *Financial instruments*	63,64	Remove because benefits do not justify costs	The IASB discussed a large number of comments on IFRS 7 disclosures in its April 2023 meeting. The IASB tentatively decided to revise the disclosure requirements and agreed to make revisions to the proposed disclosure requirements (see April 2023 IASB *Update*). The IASB tentatively decided to retain paragraphs 63–64 of the draft Standard.
Section 17 *Property, plant and equipment* and Section 18 *Intangible assets other than goodwill*	191	Avoid duplication of requirement in section 27 to show impairment losses by class of asset	In April 2023 (Agenda Paper 31A[3], paragraphs A16.1 – A16.4) the IASB discussed suggestions to revise the IAS 36 disclosure requirements on impairment by class of asset recognised in profit and other comprehensive income to eliminate the perceived duplication of requirements also in IAS 16 and IAS 38. The IASB tentatively decided not to add more requirements to IAS 36 but also not to remove any of the requirements in paragraphs 190 and 191 as these requirements are not an extra cost burden on preparers.

[3] See Agenda Paper 31A Feedback on proposed disclosure requirements and IASB Update of the April 2023 IASB meeting.

IFRS for SMEs section	Draft Standard reference	Suggestions	Remarks
Section 20 *Leases*	100–109	Add more disclosures on operating leases and non-cancellable leases	These suggestions relate to an area where there is a recognition and measurement difference so feedback on SME disclosures is not relevant to the draft Standard. The IASB agreed other changes to the IFRS 16 disclosures in the new Standard in its May 2023 discussion (Agenda Paper 31A, paragraphs A6.1 – A6.37).
Section 26 *Share-based payment*		Simplify share-based payment disclosures – for example terms and conditions, method adopted for fair value measurement	The IASB considered suggestions to simplify the disclosure requirements in IFRS 2 in its May 2023 meeting (Agenda Paper 31A, paragraphs A1.1-A1.26), and concluded that the requirements in the draft Standard satisfied the principles for reducing disclosures, and therefore retained the proposed disclosures in the draft Standard.
Section 27 *Impairment of assets*	193	Additional disclosures for example growth rate, discount rate, change in valuation technique	The IASB discussed the IAS 36 disclosures in its April 2023 meeting (Agenda Paper 31A, paragraphs A16.5-A16.11) and tentatively decided to add to the new Standard requirements based on paragraphs 134(d)(iv)-(v) and (e)(iv)-(v) of IAS 36, relating to growth rates and discount rates applied to determining a cash generating unit's value in use or fair value less costs of disposal.
Section 29 *Income tax*	145–147	Uncertainty over income tax treatments – add disclosures	No content from IFRIC 23 was directly included in the draft Standard as the Interpretation refers to disclosure requirements in IFRS

IFRS for SMEs section	Draft Standard reference	Suggestions	Remarks
			Accounting Standards rather than adding new disclosures. The only disclosure highlighted in IFRIC 23 that was not included in the draft Standard related to paragraph 88 of IAS 12, which has not been identified by respondents as being necessary. The IASB therefore did not revise the proposed disclosure requirements in the draft Standard.
Section 33 *Related party disclosures*	156–174	Simplify related party disclosures – consider including only those not at arm's length	The IASB discussed the IAS 24 disclosures at its April 2023 meeting (Agenda Paper 31A, paragraphs A13.1-A13.18) and tentatively decided to add to the new Standard paragraph 26 of IAS 24, giving additional information about transactions with government-related entities. When the draft Standard was written, the general requirements of IAS 24 were considered to give important information to users, satisfying their interest in cash flows and obligations. Developing new disclosure requirements relating to arm's length transactions would be beyond the scope of the project.