Agenda Paper: Session 03

asian-oceanian standard-setters group

THE 13th ANNUAL AOSSG MEETING

Joining hands in regional cooperation and the development of IFRS

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IASB Exposure Draft ED/2021/7 Subsidiaries without Public Accountability: Disclosures

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What is the proposal?

- A **new IFRS Standard** that would permit **eligible subsidiaries** to apply **IFRS Standards with a reduced set of disclosure requirements.**
- Benefits of the proposals

Reduced costs for preparers

- single set of accounting policies applied
- one set of accounting records
- reduced work for finance team

Tailored disclosures for users

- disclosures designed for non-publicly accountable entities
- financial statements tailored towards users' needs

Source: October 2021: IASB-ICAI-MASB virtual outreach

Q1: Objective

Preliminary views :

☑ **Agree** – provided the Standard **remains optional** for eligible subsidiaries.

Observations –

- **Cost-benefit consideration**
  - Proposed disclosures possibly **insufficient** for the parent, subsidiary must provide **additional disclosures for consolidation purposes**.
  - **Additional costs** need to **be incurred for group reporting purposes** (e.g., auditor's review of supplementary reporting package), despite ongoing reduced costs at subsidiary level.

Q1: Objective

Preliminary views :

Observations –

- **No visibility of risks in specific subsidiaries**
  - E.g., if a parent an investment holding with all operations at subsidiaries, risks reside at respective subsidiaries.
  - **Material information** in the **consolidated FS** provide **holistic understanding** of the group's operations and risks **as a whole group but may not have visibility on risks** involved in **specific subsidiaries**.

- **Minority shareholders could be disadvantaged**
  - Unable to obtain comprehensive financial information from subsidiary company's FS.

Q1: Objective

Preliminary views :

Observations –

- **Comprehensive financial information at subsidiary company's FS provides a form of good management control at parent level**
  - Provides visibility of numbers reported by subsidiaries.
- **Requirement to provide full IFRS disclosures would be helpful particularly for smaller groups without group reporting package**
  - Would rely on subsidiary company's FS to compile financial information for purpose of consolidated FS.

Q1: Objective

Preliminary views :

Observations –

- **Proposed standard may have limited benefit**
  - Jurisdiction 1: Under the existing corporate law, subsidiaries of entities whose equity instruments are traded on the public market are already preparing their financial statements as per the requirements of IFRS Standards, therefore, they are already providing disclosures as per IFRS Standards. For such entities the proposed reduced disclosures may not be as useful as for the entities preparing their financial statements as per a framework other than IFRS Standards.
  - Jurisdiction 2: the benefit of this Standard will come into play only if Ministry of Corporate Affairs reflect these changes in Schedule III to the Companies Act, which requires extensive disclosure requirements, especially considering the additional disclosure requirements that comes into effect from March 31. 2022 year end

Proposed scope

Scope

Voluntary application in consolidated or individual **financial statements available to subsidiaries** at the end of the reporting period:

(a) that **do not have public accountability**

(b) whose **parent** prepares **consolidated financial statements available for public use** that **comply with IFRS Standards**.

Public accountability

An entity has public accountability if

(a) its debt or equity instruments **are traded in a public market** or it is in the process of issuing such instruments for trading in a public market; or

(b) it **holds assets in a fiduciary capacity for a broad group of outsiders** as one of its primary businesses (includes most banks and insurance companies)

Source: October 2021: IASB-ICAI-MASB virtual outreach

Q2: Scope

Preliminary views :

☑ **Agree** –

- however, proposals might put pressure on the definition of ‘available for public use’.

Recommendations

- possibility of extending the scope
  - scope may be increased to include other entities (SMEs), to facilitate their move to a ‘higher financial reporting framework’, i.e., from *IFRS for SMEs* Standard to IFRS Standards.
  - the reduced disclosure should also be available to associate and joint ventures since they are not required to submit full disclosures to parent for consolidation

Q2: Scope

Recommendations:

- Widening the **definition of 'public accountability' (PA)** to include digital capital markets.
  - Does an **alternate market**, specifically platform operator of equity crowd funding (ECF) or peer-to-peer (P2P) financing that **provides access to financing for SMEs have public accountability**?
  - Not sure whether the digital /alternate markets were being considered when PA definition was developed more than a decade ago for *IFRS for SMEs* (7/2009)

Q2: Scope

Recommendations:

- Including more explanation on '**available for public use**'
  - Certain jurisdictions allow purchase of copies of financial statements of any company from corporate regulator on payment of a prescribed fee.
    - Would this be considered as 'available for public use' and be included in the definition of eligible subsidiary?
  - To make clear that entity must be a subsidiary without public accountability at the end of the reporting period to be scoped into the project.

Developing disclosure requirements

Start with
***IFRS for SMEs* Standard** disclosure requirements

tailor to

reflect **IFRS Standards** recognition and measurement requirements

Why?

This approach does not require IASB to develop new disclosure requirements.

Disclosure requirements in *IFRS for SMEs* Standard are

- Substantially reduced from IFRS Standards
- Intended to meet information needs of users of FS of non-publicly accountable entities

Is there a recognition or measurement difference?

Yes

Use and tailor the disclosure requirements in IFRS Standards

Apply principles used to develop disclosure requirements in *IFRS for SMEs* Standard

No

Use disclosure requirements in *IFRS for SMEs* Standard

Minor updates to:

- align terms and language
- update paragraph cross-references

In limited cases, IASB made exceptions to this approach

Source: October 2021: IASB-ICAI-MASB virtual outreach

Which IFRS Standards?

Reduced disclosure requirements proposed for:

- all IFRS Standards issued as at 28 February 2021
- exposure drafts published as at 1 January 2021

<u>except for:</u>

- IFRS 17 *Insurance Contracts*
- IFRS 8 *Operating Segments*
- IAS 33 *Earnings per Share*
- Exposure Draft – *General Presentation and Disclosures*

Source: October 2021: IASB-ICAI-MASB virtual outreach

Q3 & Q4: Approach and Exceptions

Preliminary view:

☑ **Agree** – however, to consider **interconnectivity between ED/2021/3*, ED/2021/7 and cost-benefit considerations**

- ED/2021/3 (by parent) **uses** a disclosure objectives approach.
- ED/2021/7 (by eligible subs) **excludes** disclosure objectives

Noted the EDs serve different objective but will the different approaches potentially create conflict and larger gap in disclosures between parent and subsidiary?

* IASB Exposure Draft ED/2021/3 *Disclosure Requirements in IFRS Standards—A Pilot Approach* (Proposed amendments to IFRS 13 and IAS 19)

Disclosure requirements about
Q5: transition to other IFRS
Q6: insurance contracts

Preliminary view:

- ☑ **Agree**
- ☑ reduced disclosure requirements for insurance contracts within scope of IFRS 17 should not be included as new disclosure requirements provide relevant information to users of FS

Q7: Interaction with IFRS 1

A first-time adopter of IFRS Standards electing to apply the draft Standard would:

- apply IFRS 1, <u>except for</u> paragraphs 22–33 of IFRS 1 [paragraph A1(a) of the draft Standard].
- apply disclosure requirements in paragraphs 23–30 of the draft Standard.

Preliminary view:

☑ **Agree**

Q7: Interaction with IAS 8

Applying the proposed Standard for first time

- useful to clarify in the main body of the Standard that the use of reduced-disclosure IFRS is not being considering a change in an accounting policy in accordance with IAS 8

Q8: Proposed disclosure requirements

Preliminary view:

☑ **Agree** – however:

- **paragraph 145 of draft Standard on IAS 12 *Income Taxes* appears to be a disclosure objective**

> **IAS 12 *Income Taxes***
>
> 145 An entity shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of the current and deferred tax consequences of recognised transactions and other events.

- not consistent with IASB's exception to its approach, i.e., to exclude disclosure objectives.

Q8: Proposed disclosure requirements

Preliminary view:

☑ **Agree** – however:

- **paragraph 165(b) of draft Standard on IAS 24 *Related Party Disclosures***
  - where a subsidiary has multiple parent entities, should disclosure of name of parent be specific to either referring to the ultimate or intermediate parent?

Disclosure of parent-subsidiary relationships

165 Relationships between a parent and its subsidiaries shall be disclosed irrespective of whether there have been transactions between them. An entity shall disclose:

(a) the name of its parent and, if different, the ultimate controlling party; and

(b) the name of the entity that prepares consolidated financial statements available for public use that comply with IFRS Standards, as required by paragraph 6(c) of this [draft] Standard and which results in the entity being eligible to apply this [draft] Standard.

Q9: Structure

Appendix A lists disclosure requirements in other IFRS Standards replaced by the disclosure requirements in the draft Standard.

Preliminary views:

☑ **Agree** to Appendix A being a single reference point

- Recommendation: to also **incorporate disclosure requirements that do not apply** as listed in Appendix A **into the draft Standard**, set out immediately after/below the relevant IFRS Standard.

Q9: Structure

Appendix A lists disclosure requirements in other IFRS Standards replaced by the disclosure requirements in the draft Standard.

Preliminary views:

☒ **Disagree to footnote** indicating disclosure requirements that remain applicable (not listed in Appendix A) which **may be seen as unimportant and easily missed**.

- Recommendation: disclosure requirements that remain applicable are incorporated as a **new paragraph of the relevant IFRS Standar**d.

THANK YOU