IFRS in Focus
IASB proposes reduced disclosures for subsidiaries without public accountability

Contents

This *IFRS in Focus* discusses the proposed new IFRS Standard *Subsidiaries without Public Accountability: Disclosures* set out in ED/2021/7, published by the International Accounting Standards Board (Board) in July 2021.

- The Board proposes a new IFRS Standard that would permit a subsidiary to provide reduced disclosures when applying IFRS Standards in its financial statements
- A subsidiary would be eligible for the reduced disclosures if it does not have public accountability and its ultimate or any immediate parent produces consolidated financial statements available for public use that comply with IFRS Standards
- The new Standard would be optional for subsidiaries that are eligible. It would set out the disclosure requirements for subsidiaries that elect to apply it and the disclosure requirements in IFRS Standards that do not apply and are replaced by the draft Standard
- The ED does not propose an effective date but proposes that earlier application would be permitted. The new Standard would not have specific transition provisions
- The comment period ends on 31 January 2022

Background
When their parent applies IFRS Standards, subsidiaries generally apply the recognition and measurement requirements in IFRS Standards when reporting to their parent for consolidation purposes.

The Board received feedback that some of these subsidiaries would prefer to prepare their own financial statements by applying IFRS Standards with reduced disclosure requirements. The Board acknowledged that the *IFRS for SMEs* Standard is unattractive for these subsidiaries because its recognition and measurement requirements differ from those in IFRS Standards. Thereby, a subsidiary applying the *IFRS for SMEs* Standard would be required to maintain additional accounting records.

By eliminating disclosures that are not targeted to the needs of users of financial statements of entities that do not have public accountability, the proposed new Standard can reduce costs for subsidiaries without losing information needed by the users of these financial statements.

The proposed new Standard
Objective
The objective of the new Standard would be to permit eligible subsidiaries to apply the disclosure requirements in the new Standard and the recognition, measurement and presentation requirements in IFRS Standards. The new Standard would:

- Reduce costs for subsidiaries without public accountability that report for consolidation purposes to a parent applying IFRS Standards
- At the same time maintain the usefulness of financial statements for users of those subsidiaries' financial statements

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Scope
An entity would be permitted to apply the new Standard in its consolidated, separate or individual financial statements if, and only if, at the end of its reporting period, it:

- Is a subsidiary
- Does not have public accountability
- Has an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Standards

An entity has public accountability if:

- 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 (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets)
- It holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this criterion)

Electing to apply the new Standard
Entities within the scope of the new Standard would be allowed to elect for its application and would be allowed to later revoke that election. An entity would be allowed to elect for application of the new Standard more than once—for example, an entity that applied the new Standard in a prior period but not in the immediately preceding period would be allowed to elect for application of the new Standard in the current period.

An entity would provide the comparative information based on the disclosures it is required to provide in the current period. If the entity elected to provide reduced disclosures in the current period, the comparative information would also be reduced. If the entity switches from reduced disclosures to full disclosures, the comparative information would also have to be provided in full.

Interaction with IFRS 1 *First-time Adoption of International Financial Reporting Standards*
The new Standard would include reduced disclosure requirements that apply to an entity that is preparing its first IFRS financial statements and has elected to apply the new Standard when preparing those financial statements.

If a first-time adopter of IFRS Standards elected to apply the new Standard, the entity would:

- Apply IFRS 1, except for the disclosure requirements in IFRS 1 listed in Appendix A of the new Standard
- Apply the disclosure requirements in the main body of the new Standard

This approach would be consistent with the Board's proposals on how the draft Standard would interact with other IFRS Standards.

Observation
The Board acknowledges that IFRS 1 differs from other IFRS Standards—IFRS 1 applies only when an entity first adopts IFRS Standards and sets out how a first-time adopter of IFRS Standards should make that transition. In its invitation to comment, the Board asks its stakeholders whether they agree with including reduced disclosure requirements for IFRS 1 in the new Standard or if they would prefer if the Board left the disclosure requirements in IFRS 1 untouched.

The reduced disclosure requirements
The new Standard would specify:

- Reduced disclosure requirements that apply when an entity applies the new Standard (listed by IFRS Standard in the main body of the new Standard)
- Which disclosure requirements in other IFRS Standards are replaced by the reduced disclosure requirements in the new Standard (Appendix A of the new Standard)

Observation
For developing the reduced disclosures, the Board started with the disclosure requirements in the *IFRS for SMEs* Standard and tailored those when the recognition and measurement requirements in the *IFRS for SMEs* Standard differed from those in full IFRS Standards. For example, disclosure requirements were added for topics or accounting policy options that are addressed in full IFRS Standards but omitted from the *IFRS for SMEs* Standard and disclosure requirements accounting policies available in the *IFRS for SMEs* Standard but not in full IFRS Standards were deleted. There are some exceptions to this approach explained in the Basis for Conclusions of the new Standard.

Consistent with the requirements in IAS 1 *Presentation of Financial Statements*, the new Standard would clarify that the reduced disclosures only need to be made when they are material. Additional disclosures would be required if the reduced disclosures are insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Observation
The new Standard would not contain reduced disclosure requirements for IFRS 17. The Board argues that while it found that some entities applying IFRS 17 would be entitled to apply the new Standard, IFRS 17 introduces a model for accounting for insurance contracts that is supported by its disclosure requirements. If there were possible reductions, these would be limited in extent. Also, in the early years of applying IFRS 17, the interests of users of the financial statements may be best served by full IFRS 17 disclosures. Hence, a subsidiary that applies the new Standard and IFRS 17 would be required to apply the full disclosure requirements of IFRS 17.

Effective date, transitional provisions and comment period
The ED does not include an effective date for the new Standard. Earlier application is proposed to be permitted.

The new Standard would not have specific transition provisions.

The comment period for the ED ends on 31 January 2022.

Further information
If you have any questions about the proposed new Standard, please speak to your usual Deloitte contact or get in touch with a contact identified in this *IFRS in Focus.*

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