Australian Government

Australian Accounting Standards Board

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Dr. Andreas Barckow
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21 January 2022

Dear Dr. Barckow,

ED/2021/7 – *Subsidiaries without public accountability: Disclosures*

The Australian Accounting Standards Board (AASB) is pleased to have the opportunity to provide comments on the ED/2021/7 – *Subsidiaries without public accountability: Disclosures* issued on 26 July 2021. In formulating these comments, we considered the views of Australian stakeholders expressed in AASB stakeholder outreach and comment letters received.

The AASB would like to acknowledge the efforts of the IASB to develop an IFRS Standard that would permit subsidiaries to apply IFRS Standards with reduced disclosure requirements. However, while the AASB is supportive of the project objective, we recommend that the IASB consider:

(a) extending the scope of the draft Standard to all entities without public accountability. As noted in paragraph AV1 of the Basis for Conclusions (BC) of the ED, the draft Standard has been developed without considering any specific characteristics of subsidiaries, using an approach relevant for all entities without public accountability. Therefore, it would be suitable for all entities without public accountability;

(b) a further reduction in disclosure requirements, particularly considering a cost-benefit analysis. This will ensure that the Standard is easy to apply and reflects the less complex operations of subsidiaries without public accountability;

(c) including all relevant disclosure requirements within the stand-alone Standard. That is, to include disclosures related to presentation and guidance in the Standard (and remove all footnote references to applicable disclosure requirements in other IFRS Standards), so it is easy for preparers to use; and

(d) amending the BC to ensure that it thoroughly explains the Board's consideration and decision process, including why individual disclosure requirements were considered relevant for the entities in scope.

Appendix A of this comment letter provides further details concerning the proposals outlined above.

If you have any questions regarding this letter, please don't hesitate to contact myself or Helena Simkova, AASB Deputy Technical Director (hsimkova@aasb.gov.au).

Yours sincerely,

Dr Keith Kendall
AASB Chair

APPENDIX A – Responses to questions raised in ED/2021/7 – *Subsidiaries without public accountability: Disclosures*

Question 1—Objective
Paragraph 1 of the draft Standard proposes that the objective of the draft Standard *Subsidiaries without Public Accountability: Disclosures* is to permit eligible subsidiaries to apply the disclosure requirements in the draft Standard and the recognition, measurement and presentation requirements in IFRS Standards. Do you agree with the objective of the draft Standard? Why or why not? If not, what objective would you suggest and why?

The AASB agrees with the objective of the draft Standard.

Question 2—Scope
Paragraphs 6–8 of the draft Standard set out the proposed scope. Paragraphs BC12–BC22 of the Basis for Conclusions explain the Board's reasons for that proposal. Do you agree with the proposed scope? Why or why not? If not, what approach would you suggest and why?

The AASB recommends extending the scope of the draft Standard to all entities without public accountability. The AASB understands that development of the draft Standard uses an approach relevant to all entities without public accountability. Therefore, the AASB considers that *all* entities without public accountability should be allowed to apply the Standard, rather than a subsidiary that does not have public accountability and has an ultimate or intermediate parent producing consolidated financial statements available for public use that comply with IFRS Standards.

Australian entities without public accountability can currently apply local reduced disclosure standards.[1] If the final Standard resulting from this ED is adopted in Australia, it could not fully replace the local reduced disclosure standard, which is also used by entities without public accountability that are not subsidiaries. Feedback from Australian stakeholders indicated that having two different frameworks applicable to entities without public accountability could confuse preparers and auditors. The AASB acknowledges that it is within the remit of individual standard-setters to decide on the framework applicable within their jurisdictions. Therefore, it could potentially extend the scope of the final Standard to all local entities without public accountability. However, by making the final Standard available to all entities without public accountability in a particular jurisdiction, the national standard-setter

[1] AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* is a separate disclosure Standard that can be applied by all for-profit private sector entities that do not have public accountability. While entities that comply with AASB 1060 need to apply the recognition and measurement requirements in other Standards, they are exempt from the disclosure requirements in specified paragraphs in other Standards and are not required to comply with other Standards that deal only with presentation and disclosure.

would potentially negate the reasons for the narrow scope stated by the IASB in paragraph BC16. In addition, the AASB thinks that such an approach could confuse stakeholders and give a false impression that user needs or financial reporting practices in that jurisdiction are significantly different from those in other jurisdictions.

Some stakeholders also indicated that the ability to claim compliance with IFRS Standards might help entities without public accountability reduce their cost of capital. Therefore, the AASB recommends that the IASB undertakes further outreach to understand the importance of IFRS compliance for entities without public accountability to help ensure that entities without public accountability, which are not subsidiaries, are not disadvantaged either due to the need to comply with a higher level of disclosure or a higher cost of capital.

In addition, the narrow scope of the draft Standard may, in general, reduce the comparability of financial statements of entities without public accountability, as entities that are not subsidiaries would have to report under an alternative framework. Extending the scope to all entities without public accountability may encourage worldwide adoption of the draft Standard. The main benefits of worldwide adoption would be:

- simplification of the reporting framework as fewer frameworks would be used;
- reduced costs of financial reporting for all entities without public accountability;
- increased understandability of the reporting requirements as well as the financial statements due to a simplified framework;
- increased consistency when transitioning to full IFRS reporting.

Question 3—Approach to developing the proposed disclosure requirements
Paragraphs BC23–BC39 of the Basis for Conclusions explain the Board's reasons for its approach to developing the proposed disclosure requirements. Do you agree with that approach? Why or why not? If not, what approach would you suggest and why?

The AASB agrees with the approach used by the IASB to develop the proposed disclosure requirements.

Question 4—Exceptions to the approach
Paragraphs BC40–BC52 of the Basis for Conclusions explain the Board's reasons for the exceptions to its approach to developing the proposed disclosure requirements. Exceptions (other than paragraph 130 of the draft Standard) relate to: • disclosure objectives (paragraph BC41); • investment entities (paragraphs BC42–BC45); • changes in liabilities from financing activities (paragraph BC46);

Question 4—Exceptions to the approach
• exploration for and evaluation of mineral resources (paragraphs BC47–BC49); • defined benefit obligations (paragraph BC50); • improvements to disclosure requirements in IFRS Standards (paragraph BC51); and • additional disclosure requirements in the *IFRS for SMEs* Standard (paragraph BC52). (a) Do you agree with the exceptions? Why or why not? If not, which exceptions do you disagree with and why? Do you have suggestions for any other exceptions? If so, what suggestions do you have and why should those exceptions be made? (b) Paragraph 130 of the draft Standard proposes that entities disclose a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. The proposed requirement is a simplified version of the requirements in paragraphs 44A–44E of IAS 7 *Statement of Cash Flows*. (i) Would the information an eligible subsidiary reports in its financial statements applying paragraph 130 of the draft Standard differ from information it reports to its parent (as required by paragraphs 44A–44E of IFRS 7) so that its parent can prepare consolidated financial statements? If so, in what respect? (ii) In your experience, to satisfy paragraphs 44A–44E of IAS 7, do consolidated financial statements regularly include a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities?

Australian stakeholders did not comment on individual proposals. However, the AASB is of the view that user needs are similar for all entities without public accountability, regardless of whether those entities are subsidiaries. Assuming there are no recognition and measurement differences between IFRS for SMEs and IFRS Standards, if disclosures are not considered necessary for SMEs' users, then they should not be included in the draft Standard. In respect to the specific areas listed in Question 4 above, the AASB notes the following:

- **Investment entity disclosures** – few entities without public accountability would likely be investment entities; therefore, disclosures required in paragraphs 70–74 of the draft Standard may not be necessary.

- **Changes in liabilities from financing activities** – if the feedback from users of financial statements of entities without public accountability indicates the importance of this disclosure (as explained in paragraph BC46 of the ED), then this disclosure should be added to IFRS for SMEs to maintain consistency of disclosures.

- **Additional disclosure requirements relating to defined benefits** – while paragraph BC50 of the ED explains that the disclosures are considered useful, it is not clear why users' needs of the financial statements of entities in scope should be different from those of users of SMEs' financial statements. As the entities in the scope are expected to be similar in nature to SMEs, the same principle should apply to maintain consistency. Accordingly, the AASB recommends that this disclosure requirement is removed.

- **Disclosures required due to improvements to IFRS Standards** (for example disclosure requirements from IFRS 7 *Financial Instruments*, IFRS 13 *Fair Value Measurement*, IFRS 15 *Revenue from Contracts with Customers*, IFRS 16 *Leases* and IAS 1 *Presentation of Financial Statements*) – considering the nature of the entities in scope, the Board should reconsider whether all disclosures proposed in the ED are necessary. If these disclosures are retained in any final Standard, the AASB recommends that these disclosures also be added to IFRS for SMEs to maintain consistency of disclosures, as SMEs users' needs are likely to be similar.

- **Subsequently removed disclosures** (for example, disclosures about employee benefits required in paragraphs 157 and 158 of the ED) – the Board does not support additional disclosures based on requirements that were previously included in IFRS Standards when the *IFRS for SMEs* Standard was developed but have since been removed from IFRS Standards. The IASB previously concluded that users of financial statements did not require these disclosures. Therefore, the AASB recommends that such disclosures not be included in any final Standard for the same reason.

Question 5—Disclosure requirements about transition to other IFRS Standards
Any disclosure requirements specified in an IFRS Standard or an amendment to an IFRS Standard about the entity's transition to that Standard or amended Standard would remain applicable to an entity that applies the Standard. Paragraphs BC57–BC59 of the Basis for Conclusions explain the Board's reasons for this proposal. Do you agree with this proposal? Why or why not? If not, what approach would you suggest and why?

Australian stakeholders did not comment on individual proposals. However, the AASB thinks that transition provisions from new or amended IFRS Standards should be included when, and only when, the disclosures:

- provide relief to simplify the transition to IFRS Standards; or
- are considered necessary for the users of entities without public accountability financial statements.

For example, it is unclear why presentation of an additional statement of financial position required in paragraph 114 of the ED is included.

Question 6—Disclosure requirements about insurance contracts
The draft Standard does not propose to reduce the disclosure requirements of IFRS 17 *Insurance Contracts*. Hence an entity that applies the Standard and applies IFRS 17 is required to apply the disclosure requirements in IFRS 17. Paragraphs BC61–BC64 of the Basis for Conclusions explain the Board's reasons for not proposing any reduction to the disclosure requirements in IFRS 17. (a) Do you agree that the draft Standard should not include reduced disclosure requirements for insurance contracts within the scope of IFRS 17? Why or why not? If you disagree, from which of the disclosure requirements in IFRS 17 should an entity that applies the Standard be exempt? Please explain why an entity applying the Standard should be exempt from the suggested disclosure requirements. (b) Are you aware of entities that issue insurance contracts within the scope of IFRS 17 *and* are eligible to apply the draft Standard? If so, please say whether such entities are common in your jurisdiction, and why they are not considered to be publicly accountable.

The AASB agrees with the disclosure requirements about insurance contracts.

Question 7—Interaction with IFRS 1 *First-time Adoption of International Financial Reporting Standards*
Paragraphs 23–30 of the draft Standard propose reduced disclosure requirements that apply to an entity that is preparing its first IFRS financial statements and has elected to apply the Standard when preparing those financial statements. If a first-time adopter of IFRS Standards elected to apply the draft Standard, the entity would: • apply IFRS 1, except for the disclosure requirements in IFRS 1 listed in paragraph A1(a) of Appendix A of the draft Standard; and • apply the disclosure requirements in paragraphs 23–30 of the draft Standard. This approach is consistent with the Board's proposals on how the draft Standard would interact with other IFRS Standards. However, 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. (a) Do you agree with including reduced disclosure requirements for IFRS 1 in the draft Standard rather than leaving the disclosure requirements in IFRS 1?

Question 7—Interaction with IFRS 1 *First-time Adoption of International Financial Reporting Standards*
Paragraphs 12–14 of the draft Standard set out the relationship between the draft Standard and IFRS 1. (b) Do you agree with the proposals in paragraphs 12–14 of the draft Standard? Why or why not? If not, what suggestions do you have and why?

The AASB agrees with the inclusion of reduced disclosure requirements for IFRS 1 in the draft Standard.

Question 8—The proposed disclosure requirements
Paragraphs 22–213 of the draft Standard set out proposed disclosure requirements for an entity that applies the Standard. In addition to your answers to Questions 4 to 7: (a) Do you agree with those proposals? Why or why not? If not, which proposals do you disagree with and why? (b) Do you recommend any further reduction in the disclosure requirements for an entity that applies the Standard? If so, which of the proposed disclosure requirements should be excluded from the Standard and why? (c) Do you recommend any additional disclosure requirements for an entity that applies the Standard? If so, which disclosure requirements from other IFRS Standards should be included in the Standard and why?

While Australian stakeholders did not comment on individual proposals, the AASB recommends that the IASB further reduce the disclosure requirements. As mentioned above, in relation to entities without public accountability, the disclosure requirements should reflect their financial statements users' needs. Therefore, if disclosures are not deemed necessary for users of financial statements, they should not be included in the draft Standard. Whilst the list below is not exhaustive, it represents examples of disclosures that the IASB could consider for removal from the draft Standard:

- disclosures related to IFRS 3 *Business Combinations* required under paragraphs 36(f) and (i), and under paragraphs 38(a) and (b);
- disclosures related to IFRS 5 *Non-current Assets Held for Sale* required under paragraph 40;
- disclosures related to IFRS 12 *Disclosure of Interests in Other Entities* required under paragraphs 70–74;
- disclosures related to IAS 1 *Presentation of Financial Statements* required under paragraphs 114 and 126;

- disclosures related to IAS 7 *Statement of Cash Flows* required under paragraph 132;
- disclosures related to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* required under paragraphs 134(a), (b), (f)(ii), (h), 136, 137 and 139;
- disclosures related to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* required under paragraphs 150(c) and 202(c)(iii);
- disclosures related to IAS 19 *Employee Benefits* required under paragraphs 157 and 158;
- disclosures related to IAS 27 *Separate Financial Statements* required under paragraphs 175(c), and 176–180; and
- disclosures related to IAS 32 *Financial Instruments: Presentation* required under paragraphs 182 and 183.

The AASB also recommends reducing the disclosure requirements relating to IFRS 7 *Financial Instruments: Disclosures* and IFRS 13 *Fair Value Measurement* as they may be seen as too complex for subsidiaries without public accountability. When considering the disclosures of entities without public accountability, the IASB should reassess their financial statements users' needs and exclude from the draft Standard those which are not considered necessary.

Question 9—Structure of the draft Standard
Paragraphs 22–213 of the draft Standard set out proposed disclosure requirements for an entity that applies the Standard. These disclosure requirements are organised by IFRS Standard and would apply instead of the disclosure requirements in other IFRS Standards that are listed in Appendix A. Disclosure requirements that are not listed in Appendix A that remain applicable are generally indicated in the draft Standard by footnote to the relevant IFRS Standard heading. Paragraphs BC68–BC70 explain the structure of the draft Standard. Do you agree with the structure of the draft Standard, including Appendix A which lists disclosure requirements in other IFRS Standards replaced by the disclosure requirements in the draft Standard? Why or why not? If not, what alternative would you suggest and why?

Whilst Australian stakeholders did not comment on individual proposals, the AASB is of the view that the current structure of the draft Standard will be challenging to apply. Mainly indicating the disclosure requirements applicable by footnotes referring to the relevant IFRS Standard heading rather than including them in the draft Standard may be confusing and time-consuming for preparers to identify all relevant disclosure requirements.

Question 10—Other comments
Do you have any other comments on the proposals in the draft Standard or other matters in the Exposure Draft, including the analysis of the effects (paragraphs BC92–BC101 of the Basis for Conclusions)?

The AASB noted that the decision-making process is not comprehensively documented in the Basis for Conclusions of the draft Standard. In particular, the BC should include reasons for including those disclosure requirements not contained in IFRS for SMEs and explain why they were considered necessary for the draft Standard. The AASB recommends expanding the BCs of the draft Standard to explain the basis for all disclosure requirements in more detail.