



Project:	Subsidiaries without public accountability	Meeting:	March 2023 (M194)
Topic:	Project update and consideration of possible options for adoption in Australia	Agenda Item:	3.1
		Date:	20 February 2023
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		Decision-Making:	Low
		Project Status:	Preliminary consideration

Objective of this paper

- The objective of this agenda item is to:
 - provide Board members with an **update** on the IASB's *Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures* project, including background information and a summary of the IASB's tentative decisions so far;
 - provide Board members with an **overview** of the interaction between the draft Standard, the *IFRS for SMEs Standard* and *AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit Entities and Not-for-Profit Tier 2 Entities*; and
 - consider** possible options for the adoption of *ED/2021/7 Subsidiaries without public accountability: Disclosures* (draft Standard) in Australia (included in Agenda Paper 3.2).
- Board members will not be asked to decide on the possible options for adoption at this meeting. However, Board members will be asked whether they agree with the proposed approach to evidence gathering and targeted outreach to help inform future Board decisions.

Attachment

Agenda Paper 3.2	Possible approaches to the draft Standard in Australia
Agenda Paper 3.3	Extract from AASB ED 314 <i>Subsidiaries without Public Accountability: Disclosures</i> [supporting documents folder]
Agenda Paper 3.4	Extract from AASB meeting November 2021 Staff Paper 4.1 Considerations of proposals in ED 314 <i>Subsidiaries without public accountability: Disclosures</i> and comparison to AASB 1060 to the Board 184 th meeting [supporting documents folder]
Agenda Paper 3.5	AASB Comment Letter ED/2021/7 – <i>Subsidiaries without public accountability: Disclosures</i> (January 2022) [supporting documents folder]

Background and reasons for bringing this paper to Board

Australia's current reporting requirements

- 3 AASB 1053 *Application of Tiers of Australian Accounting Standards* outlines that Australian Accounting Standards consist of two tiers of reporting requirements for preparing general purpose financial statements (GPFS):
 - (a) Tier 1: Australian Accounting Standards – incorporating the full IFRS Accounting Standards and includes additional Australian-specific disclosure requirements; and
 - (b) Tier 2: Australian Accounting Standards – Simplified Disclosures – comprising the recognition and measurement requirements of Tier 1 with substantially reduced disclosures (AASB 1060).
- 4 Entities that have public accountability are required to prepare Tier 1 GPFS. Entities that do not have public accountability can prepare Tier 2 GPFS unless they elect or are required to apply Tier 1 reporting requirements, regardless of whether they report to a parent entity.¹

IASB Project: Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures

- 5 In July 2021, the IASB published the draft Standard as an Exposure Draft (ED), open for comment until 31 January 2022. The draft Standard proposed a new IFRS Standard that would permit eligible subsidiaries to apply the recognition and measurement requirements of IFRS Standards with reduced disclosure requirements. It can be applied voluntarily by eligible subsidiaries. An eligible subsidiary is a subsidiary that, at the end of its reporting period:
 - (a) does not have public accountability; and
 - (b) has a parent that produces consolidated financial statements available for public use applying IFRS Standards.
- 6 The draft Standard is expected to be preferable to full IFRS for eligible entities because respondents to the IASB's 2015 Agenda Consultation said the *IFRS for SMEs* Standard is unattractive to subsidiaries of a parent that prepares consolidated financial statements that comply with IFRS Standards.²
- 7 The IASB used the following principles when developing the draft Standard:

Is there a recognition or measurement difference between IFRS Standards and the <i>IFRS for SMEs</i> Standard?	
Yes	No
Use and tailor the disclosure requirements in IFRS Standards	Use the disclosure requirements in the <i>IFRS for SMEs</i> Standard
Apply to the disclosure requirements in IFRS Standards the principles used to develop the disclosure requirements in the <i>IFRS for SMEs</i> Standard (slide 13)	Minor updates to: <ul style="list-style-type: none"> ▪ align terms and language with IFRS Standards ▪ update paragraph cross-references
In limited cases, the Board made exceptions to this approach	

Differences between AASB 1060 and the draft Standard

- 1 Staff note there are some entities without public accountability that are required by legislation or other requirements to prepare Tier 1 GPFS.
- 2 Because the IFRS for SMEs Standard's recognition and measurement requirements differ from those in the IFRS Standards a subsidiary would be required to maintain additional accounting records if it prepares its separate financial statements applying the IFRS for SMEs Standard.

- 8 Whilst the draft Standard was developed using similar principles as those used for AASB 1060, some differences exist.
- 9 In summary, the draft Standard includes more disclosure requirements in some areas than AASB 1060.³

The AASB's response to ED/2021/7

- 10 AASB Exposure Draft [ED 314 Subsidiaries without Public Accountability: Disclosures](#) corresponding to the draft Standard was issued in September 2021 and closed for comment on 1 November 2021.
- 11 The AASB received comment letters from [BDO](#), [CPA Australia and CA ANZ](#), [Deloitte](#), [EY](#) and [KPMG](#). The responses raised concerns about the scope of the draft Standard and its adoption in Australia, considering the recent adoption of AASB 1060 by Tier 2 entities. Some respondents suggested the AASB hold off on deciding whether to adopt the draft Standard until the IASB has completed the project. Also, given the recent implementation of AASB 1060 by Tier 2 entities (financial year ending 30 June 2022), some stakeholders suggested not adopting the draft Standard for at least two years from the initial application date of AASB 1060.
- 12 At its November 2021 meeting, the AASB considered the proposals in the draft Standard and decided to submit a comment letter to the IASB.
- 13 While the AASB expressed support for the project objective, the AASB's comment letter made several recommendations. The recommendations are included in paragraph 14 below.

3 Paragraphs 9 to 13 and Appendix A of Agenda Paper 4.1 presented at the November 2021 AASB meeting summarises the main differences between the draft Standard and AASB 1060. Agenda Paper 4.1 is reproduced as Agenda Paper 3.4 to this meeting for ease of reference.

AASB's recommendations to the IASB, feedback received from respondents to the IASB ED and IASB project decisions since the ED comment period closing date

14 The below table summarises the AASB's recommendations to IASB. It also summarises feedback from respondents to the IASB's ED and IASB project decisions since the closing date that are relevant to the recommendations made by the AASB.

The IASB began discussing feedback on the draft Standard in April 2022. At its June 2022 meeting, the IASB decided to proceed with its proposal for a new IFRS Standard:

The AASB recommended the IASB:	Feedback received from respondents to the IASB ED and IASB project decisions since the ED comment period closing date that are relevant to the recommendations made by the AASB
<p>(a) consider broadening the scope of the draft Standard to apply to all entities without public accountability. As noted in the alternative view paragraph AV1, included after the Basis for Conclusions of the draft Standard, the draft Standard was developed without considering the specific characteristics of subsidiaries while using an approach relevant for all entities without public accountability. Therefore, it would be suitable for all entities without public accountability.</p> <p>The AASB recommended the IASB undertake further outreach to understand the importance of IFRS compliance for entities without public accountability to help ensure entities, which are not subsidiaries, are not disadvantaged either due to the need to comply with a higher level of disclosures or a higher cost of capital.</p> <p>The AASB also commented that the narrow scope of the draft Standard may, in general, reduce the comparability of financial statements due to alternative frameworks being used. Further, extending the scope to all entities without public accountability may encourage worldwide adoption of the draft Standard.</p>	<ul style="list-style-type: none"> At a high level, most respondents agreed with the objective of the draft Standard.⁴ Many reiterated the expected benefits of the proposals—reducing costs and simplifying the preparation of financial statements. However, some respondents noted concerns about how the draft Standard interacts with local regulations. At its October 2022 meeting, the IASB tentatively decided to confirm the proposed objective of the draft Standard. Respondents had mixed views on the proposed scope of the draft Standard. Although some respondents agreed with the proposed scope, many suggested a wider scope allowing more entities to apply the draft Standard. However, respondents had different views on what the wider scope should be. Some respondents also suggested that the IASB considers widening the scope at a later stage, for example, after the draft Standard has been effective for a period of time. <p>At its May 2022 meeting, the IASB considered feedback on the scope of the draft Standard and tentatively decided to confirm its scope. The IASB also tentatively decided to review the scope after the draft Standard has been finalised, possibly during the post-implementation review.</p>

⁴ Paragraph one of the draft Standard states that "The objective of this [draft] Standard is to permit eligible subsidiaries to apply the disclosure requirements in this [draft] Standard and the recognition, measurement and presentation requirements in IFRS Standards."

The AASB recommended the IASB:	Feedback received from respondents to the IASB ED and IASB project decisions since the ED comment period closing date that are relevant to the recommendations made by the AASB
	<p>At its November 2022 meeting, the IASB had further discussions about some aspects of the scope and tentatively decided to confirm that subsidiaries eligible to apply the draft Standard are those that are subsidiaries at the end of the reporting period and that have an ultimate or intermediate parent that produces consolidated financial statements that comply with IFRS Standards⁵ and are available for public use.⁶</p>
<p>(b) reconsider the evidence supporting the cost versus benefit analysis and further reduce some of the proposed disclosure requirements to reflect user needs. This would help to ensure the draft Standard is easy to apply and reflects the less complex operations of subsidiaries without public accountability. The disclosures the AASB suggested to the IASB to consider removing from the draft Standard related to business combinations, non-current assets held for sale, disclosure of interests in other entities, presentation of financial statements, statement of cash flows, accounting policies, changes in accounting estimates and errors, property, plant and equipment, employee benefits, separate financial statements and financial instrument presentation.</p>	<ul style="list-style-type: none"> Many respondents provided comments on the proposed disclosure requirements of the draft Standard. These comments were wide-ranging across different IFRS Standards. <p>In December 2022, the IASB discussed specific areas of concern, such as feedback on several IFRS Standards (IFRS 8 <i>Operating Segments</i>, IFRS 17 <i>Insurance Contracts</i>, IAS 33 <i>Earnings per Share</i> and IAS 34 <i>Interim Financial Reporting</i>). The IASB also discussed the proposed statement of compliance with IFRS Standards. The IASB tentatively decided to retain/confirm its previous decisions, in relation to these, when developing the draft Standard.</p>
<p>(c) consider including all disclosure requirements, including those related to presentation and guidance within one standalone</p>	<ul style="list-style-type: none"> In summarising feedback on the structure of the draft Standard, most respondents expressed support for the draft Standard to be a separate Standard within IFRS Accounting Standards and for the disclosure

5 The IASB received feedback on the draft Standard suggesting it allow subsidiaries without public accountability to apply the Standard regardless of the generally accepted accounting principles applied in the parent’s consolidated financial statements.

6 Some respondents to the draft Standard noted available for public use is already used in IFRS Standards and asked the IASB to provide clarification on whether the financial statements are available for public use in specific situations in their jurisdictions.

The AASB recommended the IASB:	Feedback received from respondents to the IASB ED and IASB project decisions since the ED comment period closing date that are relevant to the recommendations made by the AASB
<p>standard, so it is easy for preparers to use.⁷ The AASB also suggested removing all footnote references to applicable disclosure requirements in other IFRS Standards. Including them in the draft Standard may be confusing and time-consuming for preparers to identify all relevant disclosure requirements.</p>	<p>requirements to be organised under the subheading of each IFRS Standard. Respondents expressed mixed views about ‘Appendix A Disclosure requirements in IFRS Standards replaced by this [draft] Standard’ (Appendix A) and the footnotes and subheadings.⁸</p> <p>At its October 2022 meeting, the IASB tentatively decided to omit Appendix A and replace the footnotes with cross-references to disclosure requirements that remain applicable in other IFRS Standards, under each IFRS Standard sub-heading. The IASB also tentatively decided to modify its approach to developing the proposed disclosure requirements to ensure that the language used in the disclosure requirements is the same as the language in full IFRS Accounting Standards.</p>
<p>(d) consider amending the Basis for Conclusions to ensure it thoroughly explains the Board’s consideration and decision process, including why individual disclosure requirements were considered relevant for the entities in scope. Particularly where disclosure requirements not contained in the <i>IFRS for SMEs</i> Standard were included in the draft Standard.⁹</p>	<ul style="list-style-type: none"> • Many respondents agreed with the IASB’s approach to developing the proposed disclosure requirements in the draft Standard. However, some respondents had concerns about how the proposed disclosure requirements were developed and the relationship between the draft Standard and the <i>IFRS for SMEs</i> Standard. This includes the Basis for Conclusions not explaining the reasons for including additional disclosures in the draft Standard. <p>At its October 2022 meeting, the IASB tentatively decided to explain in the s Basis for Conclusions why the disclosure requirements in the <i>IFRS for</i></p>

7 The draft Standard covers disclosures that are required in the notes to financial statements and requires stakeholders to refer back to full IFRS Standards for classification or presentation purposes and/or guidance.

8 The draft Standard requires stakeholders to refer back to full IFRS Standards for classification or presentation purposes or guidance. Further, an entity applying the draft Standard would apply the proposed disclosure requirements instead of the disclosure requirements in other IFRS Standards that are listed in Appendix A. If a disclosure requirement in an IFRS Standard is not listed in Appendix A, it remains applicable to an entity applying it. The disclosure requirements that remain applicable are generally stated in a footnote to the subheading of the IFRS Standard to which they relate.

9 Refer further to paragraph 13 of Agenda Paper 4.1 to the 184th meeting of the AASB which is reproduced as Agenda Paper 3.3 to this meeting for ease of reference.

<p>The AASB recommended the IASB:</p>	<p>Feedback received from respondents to the IASB ED and IASB project decisions since the ED comment period closing date that are relevant to the recommendations made by the AASB</p>
	<p><i>SMEs</i> Standard are the appropriate starting point, how ‘cost–benefit’ is considered and the reason for the exceptions made to the approach to developing the proposed disclosure requirements.</p>

Other relevant IASB project decisions since the ED comment period closing date

- 15 In June 2022, the IASB decided to include the new IFRS Standard disclosure requirements issued as of 28 February 2021 in the finalised draft Standard and consider amendments to the disclosure requirements after 28 February 2021, after the draft Standard is issued.
- 16 At its January 2023 meeting, the IASB confirmed its proposal to consider amendments to the draft Standard while publishing an exposure draft for a new or amended Accounting Standard.