EFRAG Secretariat: Filipe Alves, Galina Borisova

Subsidiaries that are SMEs
Update

Objective

1 The objective of the session is to provide EFRAG TEG members an update on the IASB's latest discussions on the project *Disclosure Initiative — Subsidiaries that are SMEs.* In particular, an update on:

(a) **TOPIC 1:** Should the compliance statement required by paragraph 16 of IAS 1 *Presentation of Financial Statements* differentiate the entities that have applied the reduced-disclosure IFRS Standard?

(b) **Topic 2**: Should the disclosure requirements of IAS 8 *be applied by subsidiaries applying the reduced-disclosure IFRS* Standard?

(c) **Topic 3**: Should the disclosure requirements for transition provisions of new and amended IFRS Standards be applied by subsidiaries applying the reduced-disclosure IFRS Standard?

(d) **Topic 4**: Should the disclosure requirements on combined financial statements from paragraph 9.30 of the *IFRS for SMEs* be included in the reduced-disclosure IFRS Standard?

(e) **Topic 5**: Which disclosure requirements should be proposed in the reduced-disclosure IFRS Standard for cash-generating units containing goodwill and intangible assets with indefinite useful lives?

(f) **Topic 6**: Should a subsidiary applying the reduced-disclosure IFRS Standard be required to apply the disclosure requirements of IAS *33 Earnings per Share* (omitted topic in IFRS for SMEs)?

(g) **Topic 7**: Should the reduced-disclosure IFRS Standard include disclosure requirements for interim financial reports (omitted topic in *IFRS for SMEs*)?

(h) **Topic 8**: Should the reduced-disclosure IFRS Standard include disclosure requirements for regulatory deferral account balances (omitted topic in IFRS for SMEs)?

(i) **Topic 9**: Should the reduced-disclosure IFRS Standard include disclosure requirements for subsidiaries applying IFRS 17 *Insurance Contracts* (omitted topic in IFRS for SMEs)?

(j) **Topic 10 –** When transitioning from other GAAP (local **GAAP** *or the* IFRS for SMEs) to IFRS Standards and electing to apply the reduced-disclosure IFRS Standard, is there a need to amend to IFRS 1?

(k) **Topic 11 –** When electing to apply the reduced-disclosure IFRS Standard and the previous financial statements were prepared applying IFRS Standards, is there a need for transition provisions in the reduced-disclosure IFRS Standard?

(l) **Topic 12 - Application of the reduced-disclosure IFRS Standard:** Could the reduced disclosure IFRS Standard be applied for the 'first time' more than once? Is first-time application of the reduced-disclosure IFRS Standard an accounting policy choice?

Introduction

2 The IASB is developing a reduced-disclosure IFRS Standard that would apply on a voluntary basis to subsidiaries that are SMEs—that is, subsidiaries that do not have public accountability, where the parent company already produces consolidated financial reporting using IFRSs.

3 The IASB's agreed approach to the project was to use the disclosure requirements of the *IFRS for SMEs* Standard (the "IFRS for SMEs") when there is no recognition and measurement difference with IFRS Standards, and to apply the principles in paragraph BC157 of the IFRS for SMEs to identify adaptations to the disclosure requirements of the IFRS for SMEs when there is such difference.

TOPIC 1: Should the compliance statement required by paragraph 16 of IAS 1 *Presentation of Financial Statements* differentiate the entities that have applied the reduced-disclosure IFRS Standard?

4 In October 2020, the IASB discussed whether a subsidiary that opts to apply the reduced-disclosure IFRS Standard should be required to make a statement in the disclosures that it has applied the reduced-disclosure IFRS Standard.

5 For example, when comparing two subsidiaries, one that applies the reduced-disclosure IFRS Standard and another that does not, the resulting disclosures would be significantly different. Thus, a statement that the subsidiary is applying the reduced-disclosure IFRS Standard could aid comparability.

6 If so, the IASB also discussed whether such statement should be placed together with the compliance statement required by paragraph 16 of IAS 1[1], so that all subsidiaries include the information in the same place (**Alternative 1**). Thus, someone using the financial statements of several subsidiaries would be able to readily identify whether the reduced-disclosure IFRS Standard has been applied.

7 The IASB also discussed other different alternatives:

(a) **Alternative 2**: not require a disclosure requirement;

(b) **Alternative 3**: state in the reduced-disclosure IFRS Standard that applying the Standard is an accounting policy choice; and

(c) **Alternative 4**: add a disclosure requirement in the reduced-disclosure IFRS Standard but without specifying the location of the disclosure.

8 **The IASB has tentatively decided that a proposed reduced-disclosure IFRS Standard for subsidiaries would require a subsidiary to disclose that it has applied the reduced-disclosure IFRS Standard, and require this disclosure to be located with the statement required by paragraph 16 of IAS 1.**

[1] *An entity whose financial statements comply with IFRSs shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with IFRSs unless they comply with all the requirements of IFRSs.*

The EFRAG Secretariat analysis

9 The EFRAG Secretariat notes that in the forthcoming Exposure Draft, the IASB will propose that the reduced-disclosure IFRS Standard is applied on an optional basis (as tentatively decided in December 2020).

10 One of the alternatives discussed above (**Alternative 3**) refers to having the reduced-disclosure IFRS Standard stating that applying the new IFRS Standard is an accounting policy choice and require the disclosure of such an accounting policy (e.g., IAS 16 already requires disclosure of the measurement bases used for classes of property, plant and equipment).

11 This alternative combined with the existing paragraph 116 of IAS 1, an entity would be able to provide information about the basis of preparation of the financial statements and specific accounting policies as a separate section in the financial statements. Nonetheless, the EFRAG Secretariat:

(a) notes that the adoption of the reduced-disclosure IFRS Standard has considerable consequences on the information presented in the financial statements;

(b) notes that paragraph 116 of IAS 1 is only optional; and

(c) questions whether the possibility to elect the use of a IFRS Standard (e.g. IAS 34 *Interim Financial Reporting*) can be considered as an accounting policy. If so, one may raise the question of whether the reduced-disclosure IFRS Standard would ever be used (i.e., a change from full disclosures to reduced disclosures would have to result in "the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows").

12 Therefore, the EFRAG Secretariat considers that a stronger alternative, and probably less controversial, would be having the proposed disclosure on the use of the reduced-disclosure IFRS Standard being presented together with the compliance statement already required by paragraph 16 of IAS 1.

13 In summary, the EFRAG Secretariat supports the IASB's tentative decision. Such an approach would clearly identify the use of reduced-disclosure IFRS Standard at the beginning of the financial statements, provide relevant information to users and improve comparability of financial statements.

Questions for EFRAG TEG

14 Do EFRAG TEG members agree with the EFRAG Secretariat analysis?

15 Do EFRAG TEG members have any comments on the disclosures that a subsidiary has applied the reduced-disclosure IFRS Standard?

Topic 2: Should the disclosure requirements of IAS 8 be applied by subsidiaries applying the reduced-disclosure IFRS Standard?

16 Currently, IAS 8 and Section 10 *Accounting Policies, Estimates and Errors* of the *IFRS for SMEs* Standard prescribe:

(a) the criteria for selecting and changing accounting policies; and

(b) the accounting requirements and disclosure requirements for changes in accounting policies, changes in accounting estimates and corrections of errors.

17 Section 10 was developed from IAS 8 and both are largely aligned. However, in relation to the section Changes in accounting policies: amendments to the *IFRS for SMEs* are only made periodically (approximately every five years following completion of a comprehensive review), when compared with IFRS Standards (which are regularly amended).

18 In result, the main differences in respect of the disclosure requirements are:

(a) when an entity changes its accounting policy when a new or amended IFRS Standard is initially applied by the subsidiary (paragraph 28 of IAS 8); and

(b) when a new or amended IFRS Standard is issued and has not yet been applied by the subsidiary (paragraphs 30 and 31 of IAS 8).

19 Although the disclosure requirements in Section 10 of the *IFRS for SMEs* are aligned with those in IAS 8 (no recognition or measurement differences), the question is whether it would be simpler for the subsidiaries to apply IAS 8 in full, rather than making extensive adjustments to the disclosures in Section 10 (many of the differences stem from differences about timing of amendments). In the later, subsidiaries would not be exempt from any paragraphs of IAS 8 in terms of disclosures.

20 In October 2020, the IASB discussed whether all the disclosure requirements of IAS 8 should be applicable to subsidiaries that apply the reduced-disclosure IFRS Standard and whether IAS 8 should be applied in full.

21 **The IASB tentatively decided that a proposed reduced-disclosure IFRS Standard for subsidiaries would require a subsidiary to apply all the disclosure requirements of IAS 8.**

The EFRAG Secretariat analysis

22 The EFRAG Secretariat considers that disclosures about changes of accounting policies, changes in accounting estimates; and corrections of prior period errors are fundamental and welcomes that the IASB's a more updated version.

23 Nonetheless, the EFRAG Secretariat notes that this would be an additional exception to the principles developed by the IASB. It would be an exception to the principle of tailoring the IFRS for SMEs only when there are measurement and recognition differences. It would also be an exception to the principle in paragraph BC157 of the Basis for Conclusions of *IFRS for SMEs* as the IASB would apply all the disclosure requirements of IAS 8 (and not tailor IAS 8 based on the principles in BC157).

24 In addition, if the disclosures about significant accounting policies, changes of accounting policies, changes in accounting estimates; and corrections of prior period errors are the same as in the consolidated financial statements of the parent, the EFRAG Secretariat questions whether the IASB should explore a way of avoiding, to certain extent, duplication of information (e.g., allow a summarised version with cross references to consolidated financial statements).

25 The EFRAG Secretariat notes that IAS 34 already includes a presumption that anyone who reads an entity's interim report will also have access to its most recent annual report. Consequently, IAS 34 avoids repeating annual disclosures in interim condensed reports.

Questions for EFRAG TEG

26 Do EFRAG TEG members agree with the EFRAG Secretariat analysis?

27 Do EFRAG TEG members have any comments on whether all the disclosure requirements of IAS 8 should be applicable to subsidiaries that apply the reduced-disclosure IFRS Standard?

Topic 3: Should the disclosure requirements for transition provisions of new and amended IFRS Standards be applied by subsidiaries applying the reduced-disclosure IFRS Standard?

28 The IASB discussed whether disclosure requirements about transition provisions that are usually included in an IFRS Standard should be applicable to subsidiaries that apply the reduced-disclosure IFRS Standard. For example, paragraph C12 of IFRS 16 *Leases* sets out disclosure requirements that should be applied instead of paragraph 28(f) of IAS 8 by an entity that has applied the transition option in paragraph C5(b) of IFRS 16.

29 It is worth noting that such disclosure requirements are specific to the transition provisions of an IFRS Standard and are only relevant when applying a new or amended IFRS Standard. Thus, this would only be relevant to new or amended IFRS Standards with an effective date later than the reduced-disclosure IFRS Standard (for example, it would not apply to IFRS 16).

30 The IASB also discussed whether in the future such disclosure requirements should be included in the new or amended IFRS Standard (rather than in the reduced-disclosure IFRS Standard). If so, the reduced-disclosure IFRS Standard would not include disclosures on transition provisions (potentially a cross reference to other the new or amended IFRS Standards).

31 **The IASB tentatively decided that a proposed reduced-disclosure IFRS Standard for subsidiaries would require a subsidiary to apply the disclosure requirements about transition provisions that are included in other IFRS Standards, subject to any modification to those disclosure requirements the Board considers appropriate for subsidiaries.**

The EFRAG Secretariat analysis

32 The EFRAG Secretariat welcomes the IASB tentative decision on disclosure requirements for transition provisions of new and amended IFRS Standards be applied by subsidiaries applying the reduced-disclosure IFRS Standard.

33 The EFRAG Secretariat notes that in one of the IASB's agenda papers (when discussing disclosure requirements in IFRS 8 *Operating Segments*), the IASB Staff referred to the possibility of having an appendix that lists the disclosure requirements in IFRS Standards that remain applicable to subsidiaries applying the reduced-disclosure IFRS Standard.

34 Considering the IASB's tentative decision in paragraph 28 above, the EFRAG Secretariat expects that these disclosures would not be in the reduced-disclosure IFRS Standard itself. Possibly, they would be listed in an appendix or a cross reference. This raises the concern of not having all the disclosure requirements in a single place. Nonetheless, the EFRAG Secretariat considers that this could be solved by clearly explaining at the beginning of the reduced-disclosure IFRS Standard that the application of a new standard might require specific disclosures from other IFRS Standards (e.g. early application and transition provisions).

Questions for EFRAG TEG

35 Do EFRAG TEG members agree with the EFRAG Secretariat analysis?

36 Do EFRAG TEG members have any comments on whether the disclosure requirements for transition provisions of new and amended IFRS Standards should be applied by subsidiaries applying the reduced-disclosure IFRS Standard?

Topic 4: Should the disclosure requirements on combined financial statements from paragraph 9.30 of the IFRS for SMEs be included in the reduced-disclosure IFRS Standard?

37 Section 9 of the IFRS for SMEs contains requirements on preparing combined financial statements (paragraphs 9.28 and 9.29) and includes five disclosure requirements (paragraph 9.30).

38 However, IFRS Standards do not contain requirements, including disclosure requirements, on combined financial statements, although the Conceptual Framework for Financial Reporting refers to them.

39 The IASB discussed whether paragraph 9.30 of the IFRS for SMEs should be included in the reduced-disclosure IFRS Standard.

40 **The IASB tentatively decided that a proposed reduced-disclosure IFRS Standard for subsidiaries would not include disclosure requirements for combined financial statements.**

The EFRAG Secretariat analysis

41 The EFRAG Secretariat welcomes the IASB tentative decision to not include disclosure requirements for combined financial statements as such requirements do not exist in IFRS Standards and subsidiaries that are SMEs should not be required to provide more disclosures than those required in IFRS Standards.

Questions for EFRAG TEG

42 Do EFRAG TEG members agree with the EFRAG Secretariat analysis?

43 Do EFRAG TEG members have any comments on when the IASB should consider disclosure requirements for new and amended IFRS Standards?

Topic 5: Which disclosure requirements should be proposed in the reduced-disclosure IFRS Standard for cash-generating units containing goodwill and intangible assets with indefinite useful lives?

44 There is a recognition and measurement difference between IFRS Standards and the IFRS for SMEs relating to the accounting for goodwill and intangible assets with indefinite useful lives: In particular:

(a) applying the *IFRS for SMEs*, all intangible assets, including goodwill, are measured at cost less accumulated amortisation and accumulated impairment. Those assets are considered to have a finite life;

(b) if an entity cannot establish reliably their useful life, the life is determined based on management’s best estimate but shall not exceed 10 years; and

(c) Those assets are subject to an impairment test only if there is an indication that they are impaired.

45 The IASB discussed whether and, if so, which disclosure requirements should be proposed in a possible reduced-disclosure IFRS Standard for cash-generating units containing goodwill or intangible assets with indefinite useful lives.

46 In particular, whether none, all or some of the disclosure requirements in paragraphs 134-137[2] of IAS 36 *Impairment of Assets* should be included in a possible reduced-disclosure IFRS Standard.

47 **The IASB tentatively decided that a proposed reduced-disclosure IFRS Standard should include the disclosure requirements set out in (please see agenda paper 07-03 for details on the specific paragraphs):**

(a) **paragraphs 134(a)–(c) of IAS 36;**

(b) **134(d)(i) of IAS 36;**

(c) **134(e)(i) of IAS 36;**

(d) **134(e)(iiA) of IAS 36;**

(e) **135(a)–(c) of IAS 36; and**

(f) **136 of IAS 36.**

48 **Such disclosures should provide useful information to users of SME financial statements at a cost justified by the benefits of that information**.

The EFRAG Secretariat analysis

49 The EFRAG Secretariat welcomes the IASB's tentative decision to include some of the disclosures set out in paragraphs 134, 135 and 136 of IAS 36.

50 However, the EFRAG Secretariat is concerned that some disclosures will not be included. In particular:

(a) the period over which management has projected cash flows based on financial budgets/forecasts approved by management;

(b) the growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/ forecasts; and

(c) the discount rate(s) applied to the cash flow projections.

51 This is because the period of cash flow projected and the terminal growth rate has a significant impact on the calculation of unit's (group of units') terminal value and therefore recoverable amount.

52 For example, management may use over-optimistic assumptions on terminal growth rate or use long and unreliable forecasts (e.g., 20 years) to calculate the value in use. Finally, the discount rate applied to the cash flow projections also provides highly relevant information to users of financial statements, in particular the risks specific to the asset for which the future cash flow estimates have not been adjusted.

53 Therefore, the EFRAG Secretariat considers that, with a simplified language, the following information could be required when calculating unit's (group of units') recoverable amount:

(a) the period over which management has projected cash flows;

(b) the growth rate used to extrapolate cash flow projections; and

(c) the discount rate(s) applied to the cash flow projections.

[2] detailed disclosure about the estimates used to measure recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives.

54 Finally, the EFRAG Secretariat highlights the importance of having detailed information about material impairments and reversal of impairments, even when using a reduced-disclosure IFRS Standard. For example, provide information at segment level when IFRS 8 is applied (i.e. if an entity decides to apply IFRS 8, it should provide sufficient information to users about the relationship between the operating segments and impairments) and the events and circumstances that led to the recognition or reversal of a material impairment loss. This is because, Section 27 *Impairment of Assets* requires limited disclosures on impairments (information is mainly focused on the amount of impairments). The EFRAG Secretariat notes that the disclosure of the parent might or might not be sufficient to give that information (as goodwill may be tested on a different level).

Questions for EFRAG TEG

55 Do EFRAG TEG members agree with the EFRAG Secretariat analysis?

56 Do EFRAG TEG members have any comments on which disclosure requirements should be proposed in the reduced-disclosure IFRS Standard for cash-generating units containing goodwill and intangible assets with indefinite useful lives?

Topic 6: Should a subsidiary applying the reduced-disclosure IFRS Standard be required to apply the disclosure requirements of IAS *33 Earnings per Share* (omitted topic in IFRS for SMEs)?

57 The *IFRS for SMEs* omits earnings per share topic as IAS 33 only applies to entities whose ordinary shares are traded in a public market or that files its financial statements with a securities commission or other regulatory organisation for the purpose of issuing ordinary shares in a public market.

58 As the proposed reduced-disclosure IFRS standard applies to subsidiaries that are not publicly accountable, according to the IASB tentative decision, IAS 33 would not be applicable for those entities. However, a subsidiary may choose to disclose earnings per share.

59 In this case the IASB considered 3 possible approaches:

Approach A – no disclosures are required;

Approach B – IAS 33 disclosure requirements are adapted; and

Approach C – full IAS 33 disclosure requirements apply.

60 The IASB rejected Approach A on the basis that if a subsidiary chooses to disclose earnings per share in accordance with IAS 33, then it considers that this information is useful for the users of its financial statements and therefore corresponding disclosures would be relevant.

61 The IASB also rejected the Approach B, because if it had to tailor the disclosure requirements, the tailoring would have to be based on the principles in paragraph BC157 of the Basis for Conclusions of *IFRS for SMEs.* However, earnings per share is a profitability measure and does not provide information about future cash. Therefore, the application of BC157 would not result in any disclosure requirements for earnings per share. Making changes beyond the scope of paragraph BC157 was not considered appropriate as it would expand the scope of the project.

62 Therefore, the IASB chose the Approach C, if a subsidiary chooses to disclose earning per share, it would be required to apply the full disclosure requirements of IAS 33. This approach is consistent with paragraph 3 of IAS 33 which requires an entity that applies IFRS Standards to apply the requirements of IAS 33.

63 **Thus, the IASB tentatively decided that proposed reduced-disclosure IFRS Standard will require a subsidiary applying the Standard that chooses to disclose earnings per share to apply the disclosure requirements of IAS 33**.

The EFRAG Secretariat analysis

64 EFRAG agrees with the IASB tentative decision to apply the full IAS 33 disclosure requirements should a subsidiary choose to disclose the earnings per share.

65 The EFRAG Secretariat notes that these disclosures are not required for SMEs as they do not have shares traded in a public market and, therefore, not required by *IFRS for SMEs*.

66 The EFRAG Secretariat also notes that this disclosure should not be applicable for a subsidiary applying the reduced-disclosure IFRS Standard as it is not publicly accountable entity according to the IASB tentative decision.

67 Finally, the EFRAG Secretariat agrees that if a subsidiary decides to provide information about earnings per share, then the full disclosure requirements would be relevant as well.

Questions for EFRAG TEG

68 Do EFRAG TEG members agree with the EFRAG Secretariat analysis?

69 Do EFRAG TEG members have any comments on the application of IAS 33?

Topic 7: Should the reduced-disclosure IFRS Standard include disclosure requirements for interim financial reports (omitted topic in IFRS for SMEs)?

70 The *IFRS for SMEs* omits the topic of interim financial reports, however a subsidiary may elect or be required to produce the interim reports If this is the case, the IASB staff noted that following the principles of paragraph BC157 (as it was done for IAS 33 as in paragraph 60 above) would not result in significant reduction of disclosure requirements.

71 Therefore, the IASB discussed whether it would be simpler to require a subsidiary applying the reduced disclosure IFRS Standard to apply the disclosure requirements of IAS 34 as opposed to including adapted disclosure requirements in the reduced disclosure IFRS Standard.

72 However, some of the disclosure requirements of IAS 34 *Interim Financial Reporting* (paragraphs 16A(i), 16A(j),16A(k) and 16A(l)) refer to IFRS Standards that include disclosures which will be adapted for the reduced-disclosure IFRS Standard. This would mean that, if IAS 34 is not adapted (e.g. to include updated references), a subsidiary would have to disclose more information in its interim financial statements than in the annual financial report.

73 **The IASB, therefore, tentatively decided that the reduced-disclosure IFRS Standard would include an adapted version of IAS 34 disclosure requirements** (following the principles of paragraph BC157) in order to avoid the situations when a subsidiary has to disclose more information in its interim financial statements than in the annual financial report.

The EFRAG Secretariat analysis

74 The EFRAG Secretariat supports the IASB tentative decision to adapt some of the IAS 34 disclosure requirements with the aim of bringing the level of the interim disclosures in line with the reduced disclosure requirements for annual reporting.

75 The EFRAG Secretariat considers that it would not be appropriate to apply the complete set of disclosure requirements of IAS 34 to the reduced-disclosure IFRS

Standard as it would result in a subsidiary being required to disclose more information in its interim financial statements than in its annual report.

Questions for EFRAG TEG

76 Do EFRAG TEG members agree with the EFRAG Secretariat analysis?

77 Do EFRAG TEG members have any comments on the proposed treatment of IAS 34?

Topic 8: Should the reduced-disclosure IFRS Standard include disclosure requirements for regulatory deferral account balances (omitted topic in *IFRS for SMEs*)?

78 The *IFRS for SMEs* contains no requirements relating to IFRS 14 *Regulatory Deferral Accounts*, therefore entities applying this standard cannot recognise regulatory balances. The IASB did not include IFRS 14 in the *IFRS for SMEs*, given that fact that it had an active project on *Rate-regulated Activities ('RRA')* aiming to replace IFRS 14.

79 The IASB confirmed that IFRS 14 should be included in the analysis of adaptions to the disclosure requirements of the *IFRS for SMEs* and the principles of paragraph BC157 be applied to suggest disclosure requirements.

80 **Thus, the IASB tentatively decided that the proposed reduced-disclosure IFRS Standard should include disclosure requirements derived from applying paragraph BC157 of the *IFRS for SMEs* for regulatory deferral account balances.**

The EFRAG Secretariat analysis

81 EFRAG notes that IFRS 14 has not been endorsed in EU as it was meant to be an interim solution for recognition and measurement of regulatory activities. Thus, it could have impact on the endorsement advice of the proposed reduced-disclosure IFRS Standard.

82 The EFRAG Secretariat highlights that the RRA project is already at the stage of Exposure Draft ('the ED') (issued in January 2021) and that EFRAG has published its draft comment letter in April 2021. EFRAG notes that the disclosure requirements in the ED are much more detailed than in IFRS 14 and would most probably need to be simplified to reflect the needs of subsidiaries that are SMEs.

83 The EFRAG Secretariat agrees that IFRS 14 should be included in the analysis of adaptions to the disclosure requirements of the *IFRS for SMEs* and the principles of paragraph BC157 be applied to suggest disclosure requirements.

84 The EFRAG Secretariat suggests that the developments of the RRA project are closely monitored by the IASB staff. Should the final RRA standard be issued before the reduced-disclosure IFRS Standard, the provisions of this new RRA Standard and not IFRS 14 should be analysed and included in the reduced-disclosure IFRS Standard.

Questions for EFRAG TEG

85 Do EFRAG TEG members agree with the EFRAG Secretariat analysis?

86 Do EFRAG TEG members have any comments on the proposed treatment of regulatory deferral account balances?

Topic 9: Should the reduced-disclosure IFRS Standard include disclosure requirements for subsidiaries applying IFRS 17 *Insurance Contracts* (omitted topic in *IFRS for SMEs*)?

87 At present, the *IFRS for SMEs* does not contain any requirements on insurance contracts (IFRS 17). In addition, IFRS 17 is not yet effective and is outside the scope of the Second Comprehensive Review of the IFRS for SMEs Standard.

88 **The IASB tentatively decided not to propose reduced disclosure requirements for insurance contracts under the scope of IFRS 17 and to seek views on this decision as part of its consultation. Consequently, subsidiaries issuing insurance contracts within the scope of IFRS 17 should apply the disclosure requirements of IFRS 17.**

89 In reaching this conclusion, the IASB considered the following arguments:

(a) The scope of the entities to which the reduced disclosure requirements would be applicable is very limited, currently the only entities identified as being potentially in scope are so called captive insurance entities[3]. In addition, non-insurance entities that issue contracts within the scope of IFRS 17 may qualify as SMEs;

(b) Application of principles of paragraph BC157 will not result in significant reductions in disclosures;

(c) The new IFRS 17 model is supported by its disclosure requirements which are designed to respond to the users' needs and, therefore, should be kept;

(d) As entities issuing insurance contracts within the scope of IFRS 17 are normally regulated, the insurance regulators should be added to their primary users list;

(e) IFRS 17 has not yet been applied and the time is needed to assess the usefulness and effectiveness of the disclosure requirements before proposing their reduction; and

(f) The costs for users to be able to understand and analyse the information presented which is different from complete disclosure requirements would outweigh the benefits for preparers producing the reduced disclosures.

The EFRAG Secretariat analysis

90 The EFRAG Secretariat supports the IASB's tentative decision to not propose reduced disclosure requirements for insurance contracts under the scope of IFRS 17 at this stage and to consult the stakeholders to get their views on this matter.

91 The EFRAG Secretariat considers that given the limited scope of entities to which the reduced disclosure would potentially apply and the relatively small potential of their reduction applying the provisions set-out in paragraph BC157, the costs of developing the reduced disclosures would outweigh their benefit.

92 EFRAG, however, supports the stakeholders' consultation on the topic, as it could give useful insights on the population of the entities in scope as well as the appetite for reduced disclosures both among preparers and users.

---

[3] A captive insurance company is typically an insurance company that insures only the risks of a single entity (often its parent company) or only the risks of entities within the same group of entities as the captive insurance company (such as fellow subsidiaries or parent entities). Where this is the case, the captive insurance company holds assets in a fiduciary capacity only for other group entities, which would not be considered a broad group of outsiders. Consequently, the captive insurance subsidiary is not publicly accountable, and the group will not be publicly accountable solely as a result of the captive insurance subsidiary.

93 The EFRAG Secretariat also plans to consult European constituents on this topic to receive input for its final comment letter.

Questions for EFRAG TEG

94 Do EFRAG TEG members agree with the EFRAG Secretariat analysis?

95 Do EFRAG TEG members have any comments on the proposed treatment of IFRS 17?

Topic 10 – When transitioning from other GAAP (local GAAP or the IFRS for SMEs) to IFRS Standards and electing to apply the reduced-disclosure IFRS Standard, is there a need to amend to IFRS 1?

96 If a subsidiary previously applied either local GAAP or the *IFRS for SMEs*, it will have to apply IFRS 1 when preparing the 'first IFRS financial statements'. In addition, in accordance with the IASB's proposals, the subsidiary will have to state that it has elected to apply the reduced-disclosure IFRS Standard.

97 For entities that prepare their 'first IFRS financial statements', IFRS 1 sets out the procedures that an entity must follow when it adopts IFRS Standards. It contains mandatory exceptions and optional exemptions from full retrospective application of IFRS Standards and requires disclosures that explain an entity's transition to IFRS Standards.

98 In *IFRS for SMEs*, Section 35 *Transition to the IFRS for SMEs* is the equivalent to IFRS 1. The IASB Staff suggested using the disclosure requirements from Section 35 and adapting them in accordance with the agreed approach.

99 In result, when applying IFRS Standards for the first time and simultaneously electing to apply the reduced-disclosure IFRS Standard, a subsidiary would apply the disclosure requirements of the reduced-disclosure IFRS Standard, which would include both disclosure requirements about the subsidiary's transition to IFRS Standards and the disclosure requirements for the recognition and measurement IFRS Standards the subsidiary applies. Therefore, there would be no need to amend IFRS 1 or add transition provisions to the reduced-disclosure IFRS Standard for when a subsidiary applies IFRS Standards for the first time and elects to apply the reduced-disclosure IFRS Standard.

100 **The IASB tentatively decided that the proposed reduced-disclosure IFRS Standard should not propose amendments to IFRS 1. In addition, transition provisions are not required for the reduced-disclosure IFRS Standard.**

The EFRAG Secretariat analysis

101 The EFRAG Secretariat agrees with the IASB approach of having, in the reduced-disclosure IFRS Standard, adapted disclosures for subsidiaries that adopt the reduced-disclosure IFRS Standards for the first time.

102 The reduced-disclosure IFRS Standard should include all the necessary disclosures in a single document, avoiding constant cross-references to other IFRS Standards.

Questions for EFRAG TEG

103 Do EFRAG TEG members agree with the EFRAG Secretariat analysis?

104 Do EFRAG TEG members have any comments on whether there is a need to amend IFRS 1?

Topic 11 – When electing to apply the reduced-disclosure IFRS Standard and the previous financial statements were prepared applying IFRS Standards, is there a need for transition provisions in the reduced-disclosure IFRS Standard?

105 When a subsidiary elects to apply the reduced-disclosure IFRS Standard for the first time and its previous annual financial statements have been prepared applying IFRS Standards, the impact on the subsidiary's financial statements of applying the reduced-disclosure IFRS Standard for the first time will be that its financial statements will contain fewer disclosures than in the previous year and comparatives will be restated. Therefore, the IASB staff considered that there was no need to include transition provisions in the reduced-disclosure IFRS Standard.

106 When a subsidiary discontinues applying the reduced-disclosure IFRS Standard and continues to apply IFRS Standards, the subsidiary would apply the disclosure requirements of IFRS Standards, including the requirement for comparatives. The staff considered that in this situation the subsidiary should be required to give comparatives for the disclosures that it had not included in its financial statements for the previous year. This would be consistent with IFRS 1 which does not provide an exemption or exception from giving comparatives to notes in an entity's first IFRS financial statements.

107 **When an entity elects to apply the reduced-disclosure IFRS Standard and the previous financial statements were prepared applying IFRS Standards, the IASB tentatively decided that transition provisions are not required for the reduced-disclosure IFRS Standard.**

108 **The IASB also tentatively decided that in the first financial statements in which a subsidiary ceases to apply the reduced-disclosure IFRS Standard and applies IFRS Standards with full disclosures, the reduced-disclosure IFRS Standard will require comparatives for the disclosures not included in the previous years' financial statements.**

The EFRAG Secretariat analysis

109 The EFRAG Secretariat agrees with the IASB's tentative decisions. Nonetheless, the EFRAG Secretariat considers that it is important that the requirements for the different circumstances are clear and presented separately:

(a) requirements for when a subsidiary elects to apply IFRS Standards and the reduced-disclosure IFRS Standard for the first time;

(b) requirements for when a subsidiary already applies IFRS Standards and elects to apply the reduced-disclosure IFRS Standard (for the first-time, second time, etc);

(c) when a subsidiary decides to discontinue applying the reduced-disclosure IFRS Standard (for the first-time, second-time, etc)

Questions for EFRAG TEG

110 Do EFRAG TEG members agree with the EFRAG Secretariat analysis?

111 Do EFRAG TEG members have any comments on the transition provisions for the reduced-disclosure IFRS Standard ?

Topic 12 - Application of the reduced-disclosure IFRS Standard: Could the reduced disclosure IFRS Standard be applied for the 'first time' more than once? Is first-time application of the reduced-disclosure IFRS Standard an accounting policy choice?

112 A subsidiary may wish to apply the reduced-disclosure IFRS Standard for the 'first time' more than once. The IASB staff noted that IFRS already permits to be applied more than once. Consequently, the IASB staff considered that the IASB should permit the reduced-disclosure IFRS Standard to be applied for the 'first time' more than once.

113 The IASB also discussed whether first-time application of the reduced-disclosure IFRS Standard is an accounting policy choice. If considered an accounting policy choice, an entity shall change an accounting policy only if the change is required by an IFRS or results in the financial statements providing reliable and more relevant information. However, the IASB staff noted that regardless of whether it is an accounting policy, the disclosures in the financial statements will be no different.

114 The IASB staff considered that, for the avoidance of doubt, the reduced-disclosure IFRS Standard should clearly state that the reduced-disclosure IFRS Standard is optional and an entity may reverse its decision to apply the Standard.

115 **The IASB tentatively decided that the reduced-disclosure IFRS Standard may be applied for the 'first time' more than once by a reporting entity (e.g., when a subsidiary moves from a reporting group that prepares its financial statements applying IFRS Standards to a group that does not but which then subsequently adopts IFRS Standards).**

116 **The IASB also tentatively decided that the reduced-disclosure IFRS Standard should clearly state that its application is optional and that an entity's decision to apply the Standard is reversible.**

The EFRAG Secretariat analysis

117 The EFRAG Secretariat welcomes the IASB tentative decision that the reduced-disclosure IFRS Standard should clearly state that its application is optional and that an entity's decision to apply the Standard is reversible.

118 As mentioned above, EFRAG questions whether the use of an optional IFRS Standard (e.g. IAS 34 Interim Financial Reporting) can be considered as an change in an accounting policy. If so, one may raise the question of whether the reduced-disclosure IFRS Standard would ever be used (i.e., a change from full disclosures to reduced disclosures would have to result in "the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows").

119 Therefore, the EFRAG Secretariat agrees that the reduced-disclosure IFRS Standard should clearly state that its application is optional and that an entity's decision to apply the Standard is reversible. Nonetheless, it may be useful to clarify that the use the of reduced-disclosure IFRS is not a change in an accounting policy in accordance with IAS 8.

Questions for EFRAG TEG

120 Do EFRAG TEG members agree with the EFRAG Secretariat analysis?

121 Do EFRAG TEG members have any comments on the application of the reduced-disclosure IFRS Standard?