ICAEW
REPRESENTATION 5/22

SUBSIDIARIES WITHOUT PUBLIC ACCOUNTABILITY: DISCLOSURES

Issued 31 January 2022

ICAEW welcomes the opportunity to comment on the Subsidiaries without Public Accountability: Disclosures published by IASB in July 2021, a copy of which is available from this link.

ICAEW welcomes the opportunity to provide views on this important Exposure Draft. We recognise and understand the demand for such a Standard and believe there to be significant benefits in having a reduced disclosures regime. While we support the project, this letter sets out our concerns with certain aspects of the draft Standard and some suggestions for the Board to consider.

This response of 31 January 2022 has been prepared by the ICAEW Financial Reporting Faculty. Recognised internationally as a leading authority on corporate reporting, the faculty, through its Financial Reporting Committee, is responsible for formulating ICAEW policy on financial and non-financial reporting issues and makes submissions to standard setters and other external bodies on behalf of ICAEW. The faculty provides an extensive range of services to its members including providing practical assistance with common corporate reporting problems.

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KEY POINTS

SUPPORT FOR THE INITIATIVE

1. ICAEW welcomes the opportunity to provide views on this important Exposure Draft. We support the Board's decision to respond to feedback from stakeholders requesting an option to prepare financial statements that comply with the full IFRS recognition and measurement requirements but with fewer disclosures. ICAEW recognises and understands this identified demand as demonstrated by the widely adopted FRS 101 *Reduced Disclosure Framework* standard (FRS 101)[1] in the UK, which has been designed to cater for a similar group of preparers.
2. We believe there are significant benefits to having a reduced disclosure regime. FRS 101 has been successfully adopted in the UK since 2015 and based on our experience of this Standard we welcome the opportunity to share what we have identified as already working well. While there is a pre-existing option within the UK to use FRS 101, we believe there could also be demand from some entities to use the proposed standard *Subsidiaries Without Public Accountability: Disclosures* (the draft Standard), if finalised, albeit subject to addressing some of the concerns we have outlined in this letter.
3. In light of our experience in the UK, we believe that entities based in other jurisdictions could reap significant benefits by adopting a reduced disclosure framework under IFRS. We also believe that many multinational businesses, including those in the UK, would welcome the opportunity to apply the draft Standard in their subsidiary financial statements, should any final Standard be widely adopted. The combination of consistency of recognition and measurement with the parent's IFRS consolidated financial statements and simplified disclosures could lead to significant cost efficiencies over the preparation of subsidiary financial statements.
4. Regulators in other jurisdictions may also look more favourably at introducing this draft Standard into law for subsidiary financial statements due to the fact that the recognition and measurement requirements are the same as full IFRS. This draft Standard may therefore provide a compelling cost/benefit argument to allow the use of IFRS by subsidiaries in jurisdictions that currently only allow local GAAP for subsidiaries.

IDENTIFYING THE USERS AND THEIR NEEDS

5. If the purpose of the project is to save costs for preparers of subsidiary financial statements, then we agree that the scope of the draft Standard should be restricted to these specific entities. However, we are not able to identify from the draft Standard or the Basis for Conclusions, who the Board believes to be the specific identified users of subsidiary financial statements (these might differ from the users of general purpose financial statements of other entities). Moreover, there is little to indicate that the Board has identified the specific user needs of subsidiary financial statements, and this makes reviewing the proposals quite difficult.
6. The approach taken by the Board, as set out in BC34, is to use the same principles as applied in the IFRS for SMEs Standard as the base for identifying relevant disclosure requirements. We do not agree that users, and therefore the user needs of all SME financial statements, are identical to the more specific users and user needs of subsidiary financial statements. For example, the parent will have access to detailed information from its subsidiaries and need not rely on general purpose financial statements. Indeed, information included in the subsidiary financial statements, where material, may already have been required in the consolidation process for the parent's IFRS consolidated financial statements. To be in scope of the draft Standard, the subsidiary also needs to be included in publicly available IFRS consolidated financial statements. Therefore, IFRS information about the

[1] *FRS 101 is a UK accounting standard which adopts IFRS recognition and measurement requirements but sets out certain disclosure exemptions from full IFRS. FRS 101 is available for use in the individual financial statements of a parent entity or subsidiary entity ('qualifying entity') that is consolidated in publicly available consolidated financial statements that are intended to give a true and fair view. The disclosure exemptions are sometimes conditional on the disclosures required by IFRS (or equivalent disclosures) being included in those consolidated financial statements.*

wider group is available, albeit at a higher group materiality. We urge the Board to reconsider who the users of subsidiary financial statements are and what these users need from the financial statements.

7. Additionally, we strongly recommend that the scope of the draft Standard should be extended to include individual financial statements prepared by a parent preparing publicly available IFRS consolidated financial statements. While the users are different, it could be argued that, in many respects, the user needs of the individual financial statements of an ultimate parent are similar to those of subsidiary financial statements, particularly in understanding financial performance, given the parent's inclusion in publicly available IFRS consolidated financial statements.
8. We further note that it is not uncommon in the UK for FRS 101 to be applied in parent individual financial statements, alongside IFRS consolidated financial statements. We are not aware of concerns being raised by users over the preparation of FRS 101 rather than full IFRS financial statements. Indeed, in December 2016, the FRC amended FRS 101 to remove a requirement to notify shareholders when using the reduced disclosure framework. We also believe that such an extension of scope of the draft Standard, and the cost-efficiencies it would enable, would be welcomed by many groups.

CONCERNS WITH THE APPROACH

9. As noted in paragraph 6 above, the approach taken by the Board to developing the draft Standard has been to use the IFRS for SMEs Standard as its starting point. From this position, the disclosure requirements have been tailored when recognition and measurement differences arise between full IFRS and the IFRS for SMEs Standard. While we understand that this approach builds on previous analysis carried out when developing the IFRS for SMEs Standard, and will have saved time for the Board when developing the draft Standard, it appears disconnected from the proposed scope of the draft Standard (non-publicly accountable subsidiaries) and the purpose of the project (to save costs for preparers of subsidiary financial statements, while still providing the information that users of the subsidiary financial statements need – see BC2).
10. This approach also results in a suite of disclosure requirements which are arguably appropriate for a broader range of entities (all non-publicly accountable SMEs) and does not appear to consider any specific user needs of subsidiary financial statements, nor the fact that the subsidiary is included within the parent's IFRS consolidated financial statements.
11. Subsidiaries will have supplied information based on full IFRS disclosures as part of the process for preparing the parent's IFRS consolidated financial statements. However, the approach taken in the draft Standard substitutes, in certain cases, different disclosures rather than reduced disclosures. In some cases, the disclosures require information that is not required under full IFRS and so would not be disclosed in the parent's IFRS consolidated financial statements. In our view, this approach results in disclosure requirements that start from a different place to the starting point of most companies looking to apply the draft Standard.
12. Entities currently using full IFRS to prepare their financial statements, but which might apply the draft Standard in the future, will not necessarily have a working knowledge of the IFRS for SMEs Standard and its disclosures. Therefore, to implement the draft Standard, a significant time investment will be required by each entity to understand the differences between the disclosure requirements in full IFRS and the disclosure requirements in IFRS for SMEs. This is an unwelcome result given that one of the main drivers for this project is to reduce unnecessary costs for subsidiaries.
13. In our view, one of the aspects of FRS 101 that works well in the UK is that the approach taken when designing it, was to start with the disclosure requirements in full IFRS and remove those deemed not necessary for the entities applying it. For many currently producing full IFRS financial statements, this approach would enable a smoother transition, whereby disclosures already produced can be cut down rather than amended and added to. This alternative approach would also give clarity over which disclosures are required and allows coherence with disclosures in the parent's IFRS consolidated financial statements,

where information is likely to have already been prepared for the purposes of group reporting. We encourage the Board to focus on the entities likely to apply this draft Standard and develop it in a way that would aid transition from their current reporting regime to the reduced disclosures set out in the draft Standard.

14. While we believe the Board should consider an approach similar to that taken by FRS 101 as described above, our comments below are based on the Exposure Draft published.

LAYOUT AND STRUCTURE

15. In our view, for the draft Standard to be user-friendly and comprehensible there should be a full list of all required disclosures within the body of the Standard. The use of footnotes to reference disclosure requirements in other Standards makes it difficult to use as the disclosure requirements for an individual topic might be spread across multiple locations. We strongly suggest that the Board includes all the presentation and disclosure requirements within the body of the Standard and removes all footnotes that refer to paragraphs in other Standards.
16. Where a disclosure requirement included in the draft Standard is equivalent to another included in full IFRS, we believe the wording and the requirement itself, should be identical. Otherwise, preparers will be required to check each disclosure one-by-one for differences from the full IFRS requirements. This goes against the reasoning behind producing the draft Standard, which is to save costs for preparers and could ultimately be off-putting for preparers to adopt it.

ANSWERS TO SPECIFIC QUESTIONS

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?

17. Yes, we agree and support the proposed objective of the draft Standard although we believe the Board should consider if the scope of entities able to use the draft Standard could be extended slightly (see response to question 2).

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?

18. We agree with the proposal to have a reduced disclosure regime available to subsidiaries without public accountability. As noted in BC2, while many subsidiaries without public accountability are eligible to apply the IFRS for SMEs Standard, this is often not an attractive option as they need to report to their parent financial information complying with the recognition and measurement requirements in full IFRS. Therefore, the proposed scope for the draft Standard is consistent with stakeholder demand to reduce unnecessary costs for such subsidiaries when preparing their own financial statements, while maintaining information needed by the users of those subsidiaries' financial statements. While we note that this differs to the approach to scope taken by FRS 101 in the UK, we believe it is appropriate for both consolidated and individual financial statements of subsidiaries in scope of the draft Standard to benefit from reduced disclosures. This is because we consider that the user needs of such financial statements are the same.

19. Taking account of the rationale for developing the draft Standard, we strongly recommend that the scope should be extended to include individual financial statements prepared by parents preparing publicly available IFRS consolidated financial statements. In our view, the individual financial statements of ultimate parents would similarly benefit from reduced disclosures without compromising the information required by users. See further our comments in paragraphs 7 and 8 above.
20. We note that in BC16(f) that the Board describes the draft Standard as a new approach and that restricting the scope to subsidiaries enables the Board to test this approach. It goes on to say that the Board could consider widening the scope after collecting stakeholder feedback on how the approach works in practice. However, we believe that the scope of the Standard should drive disclosures tailored to user needs and therefore getting the scoping right at this stage is crucial. If the scope of any final Standard was subsequently widened, the Board would then need to assess whether the disclosures would also need to change, which could be a cumbersome process.
21. As discussed further in our response to question 3, the Board has started from the disclosure requirements within the IFRS for SMEs Standard and then tailored where recognition and measurement differences arise. However, the IFRS for SMEs Standard caters for a far wider set of entities (non-publicly accountable SMEs) compared to the proposed scope for the draft Standard (non-publicly accountable subsidiaries). The IFRS for SMEs Standard does not specifically take account of the user needs of subsidiaries as it is not a requirement for financial statements prepared under the IFRS for SMEs Standard to be included in the parent's IFRS consolidated financial statements.
22. Therefore, as it currently stands, one could argue that the draft Standard is appropriate for all non-publicly accountable entities, even those that are not consolidated into group financial statements. While we do not believe the scope should be extended this far, we do believe it is important that the draft Standard carefully reflects the user needs of the entities within its scope as this will result in stronger 'built-in' tailoring of disclosures for these users and, therefore, more relevant financial statements.
23. There is currently very limited explanation provided in the Basis for Conclusions regarding the rationale used to determine how the user needs of subsidiaries without public accountability might differ from other non-publicly accountable entities, or from publicly accountable entities, and therefore how disclosure requirements might be tailored accordingly within the draft Standard. We would welcome further explanation as to how the specific user needs of subsidiaries' financial statements, as identified by the Board, have resulted in the requirements within the draft Standard. In the appendix to this response, we expand our views on question 8 regarding the proposed disclosure requirements. This appendix takes into account the existence of publicly available IFRS consolidated financial statements of the parent, in conjunction with the principles identified for non-publicly accountable entity financial statements by the Board in BC34.
24. We have reviewed the proposed disclosure requirements within the draft Standard on the assumption that it would apply to non-publicly accountable subsidiaries and not to all non-publicly accountable entities. As noted above, we believe that the user needs of the ultimate parent's IFRS individual financial statements are, in many respects, similar to the user needs of subsidiaries' financial statements, particularly in respect to understanding financial performance.

Question 3 – Approach

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?

25. As discussed in our response to question 2, the Board has developed the draft Standard based on the disclosure requirements within the IFRS for SMEs Standard and then tailored these when recognition and measurement differences arise between full IFRS and the IFRS

for SMEs Standard. We understand that the Board may consider this a 'safe' approach as it has previously satisfied itself that the disclosure requirements are sufficient to meet the needs of the users of financial statements of entities that are not publicly accountable. This approach also saves time for the Board in developing the draft Standard. However, in our view, adopting this approach leads to a set of disclosures that are beyond the needs of the users of subsidiary financial statements where its parent or ultimate parent already produce IFRS consolidated financial statements. It is not clear from the Basis for Conclusions whether, or how, the Board has tailored the requirements to consider the differences between the users of non-publicly accountable subsidiary financial statements and the users of the financial statements of non-publicly accountable entities more broadly.

26. Another disadvantage of the approach adopted is that a large proportion of the entities likely to apply the draft Standard will currently be using full IFRS and therefore will be unfamiliar with the IFRS for SMEs Standard disclosures. Subsidiaries will have supplied information based on full IFRS disclosures as part of the process for preparing the parent's IFRS consolidated financial statements. To implement the draft Standard will require a significant time investment for each entity to understand the differences between the disclosure requirements in full IFRS and the disclosure requirements in IFRS for SMEs. This is an unfortunate outcome given that one of the main drivers for this project is to reduce unnecessary costs for subsidiaries when preparing their financial statements.

27. We understand from BC91 that, as and when new or updated IFRS Standards are issued, consideration will be made as to the need for appropriate amendments to the draft Standard. We support this approach for future-proofing the process of keeping the draft Standard up to date. However, we believe this serves to highlight that the IFRS for SMEs Standard does not seem to be a suitable starting point for the draft Standard as there will be no future connection to IFRS for SMEs and ultimately, parts of the draft Standard will be based upon an obsolete version of the IFRS for SMEs Standard.

28. Our preferred alternative approach would be to start with the full IFRS disclosures and reduce them by taking into account the types of entities expected to apply the draft Standard – a 'top-down' approach. In our view, this alternative approach would result in a draft Standard that is clearer for entities in scope to apply and would ease transition. Those currently applying IFRS that move to using the draft Standard would already be producing these disclosures and therefore it would simply be a case of removing the superfluous disclosures. This is the approach taken by FRS 101 in the UK which has been successfully adopted by many UK entities since 2015.

29. By adopting this alternative approach, the Board could clearly set out how the disclosure requirements retained, reflect the specific user needs of the entities with its scope. The UK's Financial Reporting Council (FRC) has an annual process that considers disclosure reductions for FRS 101 based on specified criteria. Although these criteria are not the same as the criteria set out in BC34, the Board could consider looking at the disclosure exemptions available within FRS 101 to identify any that might also be appropriate for the draft Standard and follow a similar process.

30. We appreciate that adopting a different approach to developing the draft Standard would be challenging at this stage in the project and may not be practicable. Therefore, if the Board decides on balance to continue with the approach adopted in the Exposure Draft, we strongly suggest that further consideration is given to how the disclosures taken from the IFRS for SMEs Standard might be better tailored to meet the specific user needs of subsidiary financial statements.

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);***

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- ***changes in liabilities from financing activities (paragraph BC46);***
- ***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?

Disclosure objectives

31. We agree that to include individual disclosure objectives is not appropriate for the draft Standard because this would conflict somewhat with the purpose of the project which is to specify which disclosure requirements are to apply for subsidiaries without public accountability. We do believe, however, that it would be important to include an overall disclosure objective within the draft Standard which states that additional disclosure should be provided where the mandated disclosure list is not sufficient to give users a true and fair view of the underlying transactions. We note that paragraph 16 of the draft Standard includes similar wording to IAS 1 paragraph 17(c) in this regard. However, we do not think the wording is strong enough and suggest removing the following text: "*An entity shall ~~also consider whether to~~ provide additional disclosures when compliance with the specific requirements in this [draft] Standard…*".
32. We also note that IAS 1 paragraph 17(c) is included in footnote 8 within the draft Standard. It is therefore confusing to have this requirement expressed in a less prescriptive manner in the main body of the standard.
33. Additionally, we note that paragraph 16 of the draft Standard includes a point about excluding information that is not material. This one paragraph is combining two opposite scenarios which we believe is confusing for users of the Standard. We believe they should be two separate paragraphs in order to clearly distinguish the points being made as the need for additional disclosures in certain situations is a fundamental part of the Standard which requires a stronger message.
34. Moreover, we believe there needs to be guidance included within the draft Standard to explain how an entity makes judgements on whether additional disclosure is or is not necessary. In our view, there is an absence of any explanation about how the users of these financial statements differ from the users of full IFRS financial statements within the draft Standard. It is not clear, therefore, how an entity might go about identifying necessary and

relevant additional disclosures that are different from those in full IFRS financial statements. We suggest that the guidance added is modelled on the principles set out in BC34 of the Basis for Conclusions.

Investment entities

35. It is unclear why the Board has concluded that the draft Standard should not include disclosure requirements similar to those in paragraphs 14-17, 19D(b)-G of IFRS 12 *Disclosure of Interest in Other Entities*, for any entity (investment or non-investment entity), given that these relate to commitments to provide financial support to consolidated and unconsolidated structured entities. This decision appears to conflict with BC34 which states that the users of non-publicly accountable entity financial statements are principally interested in information about obligations, commitments or contingencies.
36. Having made the decision to exclude these disclosure requirements for non-investment entities, we agree with the logic applied by the Board to be consistent and not require the equivalent disclosures for investment entities. However, we likewise challenge whether this decision meets the needs of users of non-publicly accountable entity financial statements as identified in BC34. Further clarity on this point would be helpful.
37. Furthermore, we believe that additional IFRS 12 disclosures (specifically paragraph 22(a)) relating to associates and joint ventures would be relevant and appropriate to include within the draft Standard for both investment and non-investment entities in accordance with the solvency and liquidity principle identified in BC34.

Changes in liabilities from financing activities

38. We agree that the disclosure requirement for changes in liabilities from financing activities is an important disclosure that meets the needs of users of non-publicly accountable subsidiaries. We also agree that a reconciliation rather than a narrative description of movements from opening to closing balances is a more useful method of communicating such information. Additionally, in our experience, consolidated financial statements do (more often than not) include a reconciliation between opening and closing balances for liabilities arising from financing activities rather than narrative disclosures.
39. In response to question 4(b) specifically, we believe that the information an eligible subsidiary reports in its financial statements applying paragraph 130 of the draft Standard would differ from information it reports to its parent for the consolidated financial statements due to intra-group balances. Movements on intra-group balances may reflect adjustments for equity elements or accretion of interest arising where the terms are not at arm's length.
40. We believe that the inclusion of this requirement for disclosure for changes in liabilities from financing activities provides relevant information to users of subsidiary financial statements. As discussed further in question 8, we suggest the Board considers removing the requirement for disclosure of a cash flow statement, which could give rise to significant cost savings. This consideration of course has to be balanced with an assessment of how the omission of a cash flow statement impacts user needs of subsidiary financial statements and we recommend further research is conducted on this topic. While we are aware of mixed views, some consider that, in the context of subsidiaries, the reconciliation required in paragraph 130 of the draft Standard is a fundamental disclosure requirement to meet user needs in assessing solvency and liquidity, and the information presented in the statement of cash flows may go beyond these user needs.

Exploration for and evaluation of mineral resources

41. We also agree with the inclusion of paragraph 25 of IFRS 6 *Exploration for and Evaluation of Mineral Resources* in the draft Standard, which requires exploration and evaluation assets to be disclosed as a separate class of assets.

Defined benefit obligations

42. We agree with the explanation provided in paragraph BC50 that despite no differences in recognition and measurement between IFRS for SMEs and full IFRS, the disclosure requirements in the IFRS for SMEs Standard for defined benefit obligations, should be expanded for the purpose of the draft Standard. However, we feel that the Board should go even further with the disclosure requirements within the draft Standard.
43. The proposal to combine 'all other changes' (paragraphs 152(b)(vi) and 152(c)(iv)) in reconciliations of plan assets and defined benefit obligations might lead to confusion. In our view, it would be clearer to keep the list of reconciling items consistent with the full list in IAS 19 *Employee Benefits*, paragraph 141. A particularly relevant principle for assessing appropriate disclosures identified in BC34 is that disaggregation of amounts presented in financial statements are important for an understanding of those statements. To keep the full list of reconciling items would also help to achieve consistency with the disclosures required for the parent's IFRS consolidated financial statements which a subsidiary would have to prepare anyway.
44. In addition, if as identified in BC34, the users of the SME financial statements are particularly interested in information about liquidity and solvency, we suggest that excluding disclosures about commitments to make future contributions is not appropriate. We encourage the Board to consider inclusion of paragraph 147 of IAS 19 into the draft Standard.

Improvements to disclosure requirements

45. We agree with the logical approach of including improvements to disclosure requirements in IFRS Standards within the draft Standard. The timing of updates to the IFRS for SMEs Standard mean that these improvements are not yet reflected there, however these improvements would benefit any user of the draft Standard and so should be reflected.

Additional disclosure requirements in the IFRS for SMEs Standard

46. Where the IFRS for SMEs Standard contains disclosure requirements that are additional to those in full IFRS because the requirements have been removed from or amended within full IFRS, we agree with the proposals set out in the Basis for Conclusions, which largely align the draft Standard to the specific IFRS Standard.

Question 5 – Disclosure requirements about transition

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?

47. Yes, we agree with the proposal that disclosures relating to transition to an individual IFRS standard will remain applicable to entities applying the draft Standard as a default position. However, it is possible that certain IFRS standards contain a large number of disclosure requirements about transition, and this in itself might be out of balance with the rest of the reduced disclosures. Therefore, we would suggest that the Board considers reviewing this approach on a case-by-case basis as there might be potential for appropriate simplifications. However, any simplifications to the transitional requirements available to entities applying the Standard should be included in the IFRS or IFRS Interpretation in question (rather than in the Standard) to avoid frequent changes to the Standard.

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.***

48. Yes, we agree that this is a sensible approach for disclosure requirements about insurance contracts. We are aware that there are entities that issue insurance contracts within the scope of IFRS 17 that might not be publicly accountable. These could include captive insurance subsidiaries but also non-insurers such as entities issuing certain warranties and guarantees not excluded from IFRS 17.

Question 7 – Interaction with IFRS 1

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? 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?***

49. We agree with the decision to keep this draft Standard as part of the suite of other IFRS Standards (unlike the IFRS for SMEs Standard) as it means that entities can move in and out of this draft Standard without the risk of triggering the IFRS 1 first-time adopter disclosure requirements. This offers flexibility for preparers and makes sense given that the recognition and measurement requirements do not differ. Paragraph 13 of the draft Standard makes this point clear, and we would suggest that this paragraph is replicated in IFRS 1 *First-time Adoption of International Financial Reporting Standards* as well, in order to be clear in both Standards.
50. We do not agree with the proposal that the requirement in IFRS 1 paragraph 24(c) is excluded from the draft Standard. We believe that the requirement to make the appropriate IAS 36 *Impairment of Assets* disclosures (ie, the equivalent disclosures included in the draft Standard) if an entity recognised or reversed any impairment losses for the first time in preparing its opening IFRS statement of financial position is an important one. This particular disclosure encourages an appropriate level of transparency on transition to IFRS.
51. We have noted that paragraph 25(a) of the draft Standard includes a requirement to disclose a description of the nature of each change in accounting policy. This requirement is not included within IFRS 1. We believe this wording should be reconsidered as it could result in

lengthy disclosures that are in no way material and are contrary to the reduced disclosure concept of 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?

52. As discussed in response to questions 2 and 3, we have some concerns with the approach adopted in developing the draft Standard and how this interacts with the proposed scope. We also note that there are a number of other IASB projects that overlap with this Exposure Draft such as *Disclosure Requirements in IFRS Standards - A Pilot Approach* and the *Comprehensive Review of IFRS for SMEs Standard*. Without knowing the ultimate direction of these projects, it is challenging to reach definitive conclusions on the proposed disclosure requirements in the draft Standard. Notwithstanding these challenges, we have nevertheless considered the proposed disclosure requirements on the assumption that they are intended only for the financial statements of a subsidiary without public accountability whose parent prepares publicly available IFRS financial statements.

53. Very broadly, we do not believe sufficient consideration has been given to the fact that the entities applying the draft Standard are generally consolidated into publicly available financial statements prepared under IFRS. We believe that there are opportunities to further reduce disclosure requirements where there is sufficient information included within the publicly available IFRS consolidated financial statements. One example would be the share-based payment disclosures whereby much of the information required by the draft Standard could be gleaned from looking at the consolidated financial statements.

54. We suggest that the Board considers removing the requirement to present a statement of cash flows subject to a thorough assessment of who the users of subsidiary financial statements are, what their associated needs are and how the omission of a cash flow statement would impact on user needs. We are aware of strong and mixed views on the topic of a cash flow statement exemption but, on balance, this ultimately depends on identifying user needs of subsidiary financial statements. It may be the case that certain users of these financial statements, such as the parent, lenders or tax authorities, are already in a position to ask for the information they require.

55. Some stress the conceptual basis for presentation of a cash flow statement as a primary statement and would accordingly not support the introduction of a cash flow exemption for subsidiary financial statements. Others, while acknowledging the conceptual basis for the cash flow statement, consider that the purpose of this draft Standard is to reduce unnecessary costs for subsidiaries. Indeed, that is why the draft Standard proposes disclosure exemptions from full IFRS. This view considers that the scope of the draft Standard is relevant, and that inclusion of a cash flow statement exemption could significantly reduce the costs of preparation of subsidiary financial statements, while still meeting the information needs of users in general. The cash flow statement is often not prepared at subsidiary level in consolidation returns for the parent's IFRS consolidated financial statements; therefore, preparation of a cash flow statement is often a separate exercise solely for the subsidiary financial statements.

56. Removing the requirement to present a statement of cash flows is, therefore, likely to make adoption of this draft Standard more attractive, including for UK entities that currently prepare their financial statements under FRS 101, a standard that also does not require a cash flow

statement to be presented. Use of the cash flow statement exemption by FRS 101 reporters is very widespread and, as noted in paragraph 8 above, we are not aware of concerns being raised by users over the preparation of FRS 101 financial statements. This serves to highlight that there is a clear cost benefit for preparers of a cash flow statement exemption without noticeable detriment to users of these financial statements.

57. Additionally, it is common for groups to manage their cash at a group level rather than on an individual entity level which diminishes the usefulness of a cash flow statement prepared by some subsidiaries in scope of the draft Standard. In some cases, users assessing liquidity and solvency (eg, where there are cross guarantees of loans) may be as interested in the group cash flow statement, which will be publicly available. As previously mentioned in response to question 4 above, the presence of the requirement to disclose changes in liabilities from financing activities could be sufficient, given the intended scope of the draft Standard, so that removing the requirement for a statement of cash flows may be acceptable, subject to further research.

58. Throughout the disclosure requirements set out in the draft Standard, it is not always clear how the principle that measurement uncertainties are considered important for users (see BC34), has been applied. For example, the disclosures included in the IAS 36 section do not specifically require quantification of any key assumptions (such as discount rates) nor disclosure of whether a value in use or fair value less cost of disposal approach was used in the impairment test where an impairment or impairment reversal is recognised. There are further examples of this nature identified within Appendix 1.

59. Another principle cited in the Basis for Conclusions as important for users is information about liquidity and solvency (see BC34). Again, it is not always clear how this principle has been applied when drafting the draft Standard. For example, only limited liquidity risk disclosures have been included under the IFRS 7 section of the draft Standard; in particular there is no maturity analysis for liabilities (IFRS 7, paragraph 39).

60. In addition, we do not consider that the draft Standard should include any disclosure requirement that is over and above the requirements within IFRS Standards. One example of this has been cited in paragraph 51 above.

61. We have made some detailed suggestions in Appendix 1 to this response, for further reductions to the disclosure requirements as well as any additional disclosure requirements or changes to disclosure requirements that we feel would be appropriate in the draft Standard.

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?

62. We do not agree with the structure of the draft Standard in its current form. Our view is that, in order for the draft Standard to be user-friendly and comprehensible there should be a full list of all required disclosures within the body of the Standard. The use of footnotes to reference disclosure requirements in other Standards makes it rather fragmented and difficult to use, as preparers have to look in multiple locations for the disclosure requirements for each topic. We strongly suggest that the Board includes all the disclosure requirements within the body of the Standard and removes all footnotes.

63. We believe that Appendix A to the draft Standard is a useful list of disclosure requirements that are not required under the draft Standard and we agree with including this as an appendix.
64. For the avoidance of doubt, we suggest including the presentation requirements that apply within the draft Standard or as an integral appendix. This would also help to make the draft Standard easier to use from a preparer's perspective as all requirements would be in one place.

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)?

65. We have no further comments on the proposals in the draft Standard.

Appendix 1: The proposed disclosure requirements

66. This appendix provides our detailed views of the proposed disclosure requirements, which take into account the existence of publicly available IFRS consolidated financial statements of the parent as well as the principles identified by the Board for non-publicly accountable entity financial statements in BC34. Some other points on individual disclosures have been noted separately in responses to specific questions posed by the ED.

IFRS 2 – *Share-based Payment*

67. We believe it is possible to remove almost all of the requirements under this Standard as much of the important and relevant information regarding share-based payment arrangements can be gleaned by looking at the consolidated IFRS accounts. However, we believe paragraphs 31(a), (b) and 35 of the draft Standard should be retained.

IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*

68. Footnote 6 of the draft Standard refers to paragraph 12 of IFRS 5, which in turn refers to paragraph 41. Some of this paragraph is already included in paragraph 39 of the draft Standard and so is therefore duplicated. This is a good example of why it would be more straightforward to write the disclosure requirements out in full rather than reference other Standards. We understand from Appendix A, paragraph A2 of the draft Standard that references to other standards should be disregarded but this is not made at all clear.

IFRS 7 – *Financial Instruments: Disclosures*

69. BC34 states that users of the financial statements of non-publicly accountable entities are particularly interested in information about liquidity and solvency. However, only limited liquidity risk disclosures have been included under the IFRS 7 section of the draft Standard. In particular there is no maturity analysis for liabilities (IFRS 7, paragraph 39).

70. By contrast, the ECL disclosure requirements (paragraphs 62 – 64) appear to be excessive for needs of users of non-publicly accountable entities. In many cases, for example subsidiaries that are holding companies, the main ECL risk relates to intragroup receivables.

IFRS 15 – *Revenue from Contracts with Customers*

71. There seems to be a lack of disclosure requirements about areas involving estimates or significant judgements made in applying IFRS 15. In particular, we believe IFRS 15 paragraph 123 should be included as part of the draft Standard given the importance of an understanding of the basis of revenue recognition. We note that the Basis for Conclusions identified that information on measurement uncertainties and policies is important for the users of SME financial statements.

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72. Additionally, we believe that disclosure of the revenue recognised from contracts with customers (IFRS 15, paragraph 113(a)) and disclosure of timing of revenue recognition and nature of goods or services (IFRS 15, paragraph 119(a) and 119(c)), should be included within the draft Standard for a similar reason to that set out above, and also because revenue is fundamental to performance and these disclosure requirements provide vital information to all users.

IAS 1 – *Presentation of Financial Statements*

73. The requirements set out in paragraphs 121-122 of the draft Standard regarding the structure of the notes, are taken from the IFRS for SMEs Standard and do not reflect recent improvements made to IAS 1 paragraphs 113-114. It is not clear from the Basis for Conclusions why these improvements have not been included as BC51 explains that disclosures arising from improvements to IAS 1 have been included in the draft Standard.
74. Within the draft Standard, paragraphs 124 and 125 cover disclosure requirements for judgements and estimates. While paragraph 124 includes examples of judgements that an entity might be required to disclose, there are no examples of estimation uncertainty disclosures. As previously mentioned, information on measurement uncertainties has been identified as important for the users of the financial statements of non-publicly accountable entities (see BC34). Therefore we believe examples would be useful based on IAS 1 paragraph 129 to help set clearer expectations. As it currently stands, the requirement is fairly basic which could result in very limited information being provided by entities in an area that is considered valuable to users.

IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors*

75. Given that the disclosures on the impact of new IFRS Standards covered in paragraphs 136 and 137 of the draft Standard will already be disclosed within its parent's financial statements, in our view it seems excessive to include them as part of the reduced disclosures Standard.

IAS 12 – *Income Taxes*

76. We believe that IAS 12 paragraph 82 should be included to meet the user need identified in BC34 of information on measurement uncertainties. In our experience, assessments of deferred tax balances can differ between group and subsidiary levels.

IAS 34 – *Interim Financial Reporting*

77. We believe that it is unlikely, given the scope of the draft Standard, that many entities would need to prepare interim financial statements for general purposes if they are not publicly accountable. Therefore, we would suggest the Board re-considers if IAS 34 should be part of the draft Standard at all.

IAS 36 – *Impairment of Assets*

78. The disclosures included in the IAS 36 section do not specifically require quantification of any key assumptions (such as discount rates) nor to disclose whether a value in use or fair value less cost of disposal approach was used in the impairment test where an impairment or impairment reversal is recognised. This appears to contradict with the identified user need that disclosures about measurement uncertainties are important.

IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*

79. Another disclosure requirement that we believe should be included in the draft Standard is an indication of uncertainties about the amount or timing of outflows that relate to each class of provision including major assumptions made concerning future events, as set out in IAS 37 paragraph 85(b). Again, this is a disclosure that covers an area of measurement uncertainty which is identified as a user need in BC34.

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