Think Ahead **ACCA**

Subsidiaries without public accountability: disclosures

Exposure draft issued by IASB July 2021

Comments from ACCA
January 2022

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants.

We're a thriving global community of **233,000** members and **536,000** future members based in **178** countries and regions, who work across a wide range of sectors and industries. We uphold the highest professional and ethical values.

We offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance and management. Our qualifications and learning opportunities develop strategic business leaders, forward-thinking professionals with the financial, business and digital expertise essential for the creation of sustainable organisations and flourishing societies.

Since 1904, being a force for public good has been embedded in our purpose. We believe that accountancy is a cornerstone profession of society and is vital in helping economies, organisations and individuals to grow and prosper. It does this by creating robust trusted financial and business management, combating corruption, ensuring organisations are managed ethically, driving sustainability, and providing rewarding career opportunities.

And through our cutting-edge research, we lead the profession by answering today's questions and preparing for the future. We're a not-for-profit organisation. Find out more at **accaglobal.com**

ACCA
+44 (0)20 7059 5000
info@accaglobal.com
www.accaglobal.com
The Adelphi 1/11 John Adam Street London WC2N 6AU United Kingdom

Further information about ACCA's comments on the matters can be requested from:

Richard Martin,
Head of Corporate Reporting
richard.martin@accaglobal.com
+44(0)7802620065

GENERAL COMMENTS

ACCA welcomes the opportunity to provide views in response to the exposure draft (ED) of a new disclosure regime for subsidiaries that do not themselves have public accountability. This was done with the assistance of ACCA's Global Forum for Corporate Reporting.

We support the development of a separate reduced disclosure regime to be available for appropriate companies that prepare financial statements otherwise in compliance with other IFRS. We note that this would mean that the IASB would be offering three accounting systems

- Full IFRS for recognition and measurement and disclosure requirements
- For some companies full IFRS except for reduced disclosures
- IFRS for SMEs with some simplifications in recognition and measurement and somewhat different reduced disclosures.

This creates some complexity and potentially blurred distinctions especially between the latter two. This will be especially the case if, as we generally support, the main treatments of accounting items in IFRS and IFRS for SMEs stay aligned.

The ED proposes that the disclosures should in many cases be based on the IFRS for SMEs and that standard is currently being reviewed and potentially revised. Ideally any relevant changes to IFRS for SMEs should be reflected in this standard in due course.

The IASB should reconsider and extend the scope of this standard beyond the subsidiaries set out in this ED. An extension may in turn reflect on the best approach to be adopted in deciding on disclosure reductions, as we discuss in our answers to Questions 2 and 3.

We broadly agree with the disclosures proposed, but in Question 8 set out some limited amendments.

The presentation of the standard could be made more user friendly by having a comprehensive list of disclosures instead of some in an appendix and some by way of footnotes.

RESPONSES TO SPECIFIC QUESTIONS RAISED

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?

We agree with the objective of the standard and consider that it is likely to be useful in those countries where IFRS can be or must be used in preparing the financial statements of non-publicly accountable entities. The use and take-up of a comparable optional standard FRS101 in the UK would indicate that this is likely to be the case. It will be the case that some of the information that may be omitted by the adoption of the standard will be required to be prepared by the subsidiary for internal reporting to the parent for consolidation purposes. Nevertheless, there will be a reduction in some data collection and a significant reduction in the reporting and auditing cost and effort and this is likely to make adoption worthwhile.

Question 2—Scope
The Board proposes that an entity would be permitted to apply the draft Standard if, at the end of its reporting period, it is a subsidiary which: (a) does not have public accountability; and (b) has an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Standards.
Do you agree with the proposed scope? Why or why not? If not, what approach would you suggest and why?

We agree that the application of this standard should be optional. The disclosures required by full IFRS may need to be gathered and reported for group consolidation purposes by subsidiaries in any case. There may be cases where the full disclosures may be useful even for these subsidiaries.

The standard should be restricted to entities without public accountability, with an exception for the separate financial statements of parent companies, if any are required by national regulation, which have also prepared and made available consolidated IFRS financial statements.

The principal demand for this standard is likely to be from the many subsidiaries in IFRS groups that are required to prepare separate financial statements, as envisaged in the scope of the ED. Similar considerations might apply to many joint ventures and associates and IASB should consider their inclusion in the scope.

We are also aware that the scope could be extended to any entity without public accountability, as proposed in the Alternative View. No significant conceptual reason for the restriction to subsidiaries appears to be given in paragraph BC16. While we note that the main take up is likely to be from subsidiaries, there are a number of countries where all entities are required to use IFRS for their reports. In others IFRS may be an option for such reporting. An extension to all entities without public would be helpful in reducing the burden of gathering, publishing and auditing the full disclosures and may encourage further adoption of IFRS where this is an option.

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

The best approach to developing the disclosure requirements depends on the scope adopted. In response to Question 2 we have noted the arguments we see for expanding the scope.

If the scope is restricted to subsidiaries, then an approach of starting with the disclosures in full IFRS and deleting ones that can be omitted may be more helpful than that in the ED based on the IFRS for SMEs. This would relate more directly to the subsidiaries and would avoid the risk of adding new disclosures that would not be part of the consolidation reporting to the parent and any issues of interpretation of requirements that might be differently stated compared to full IFRS.

If the scope were widened to include other entities without public accountability then the approach in the ED is the right one.

It would be helpful if the IASB were to identify and consider the material differences between these two approaches.

We have answered the other questions in the ED on the assumption that the approach is as proposed in the ED.

Question 4—Exceptions to the approach

Paragraphs BC40–BC52 of the Basis for Conclusions explain the Board's reasons for the exceptions to its approach to developing the proposed disclosure requirements. Exceptions (other than paragraph 130 of the draft Standard) relate to:

- *disclosure objectives (paragraph BC41);*
- *investment entities (paragraphs BC42–BC45);*
- *changes in liabilities from financing activities (paragraph BC46);*
- *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?

While we note the reasons given for the exclusion of disclosure objectives, the approach here would seem to be at odds with the approach proposed in the pilot approach to disclosures (ED/2021/3) which would stress the importance of providing disclosures to meet the objective. We consider that disclosure objectives would be helpful in addition to the specific requirements for information to achieve them. If parent companies should adopt that approach we see no reason why the subsidiaries in their group should not do the same.

We do not agree with the proposals for investment entities to exclude some disclosures concerning commitments to unconsolidated entities. These kind of contingencies would be of interest to users of the financial statements as noted in BC34.

We agree with the other exceptions.

(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.

We support the requirement for this reconciliation

Question 5—Disclosure requirements about transition to other IFRS Standards

Any disclosure requirements specified in an IFRS Standard or an amendment to an IFRS Standard about the entity's transition to that Standard or amended Standard

would remain applicable to an entity that applies the Standard. Paragraphs BC57–BC59 of the Basis for Conclusions explain the Board's reasons for this proposal.
Do you agree with this proposal? Why or why not? If not, what approach would you suggest and why?

We agree that disclosure requirements specified in transitional arrangements for new or amended requirements should remain applicable to the companies within scope of this standard.

Question 6—Disclosure requirements about insurance contracts

(*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.

We agree that the disclosure requirements of IFRS17 should not be reduced at this point given the lack of experience with the standard.

While the great majority of entities within the scope of IFRS17 would have public accountability based on their holding assets in a fiduciary capacity for a wide group of counter parties, there may well be subsidiaries that have insurance contracts that are not, such as 'captive' insurance companies providing self-insurance for a group.

Question 7—Interaction with IFRS 1 First-time Adoption of International Financial Reporting

(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?

We agree with the approach adopted for IFRS1.

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?

We agree with the proposed disclosures, with the following exceptions:

- those from IAS34 could be omitted on the grounds that interim reports are unlikely to be a common occurrence for these subsidiaries and that the proposed reductions are not very significant.

- The disclosures on expected credit losses in paragraphs 62 to 67 could be reduced as likely to go beyond the needs of the users of the financial statements in scope

- In a similar way the IBOR changes in paragraphs 59 and 60

- The disclosure of assumptions regarding provisions in paragraph 85(b) could be omitted

Question 9—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?

We note that the approach relies on a list of required disclosures together with certain others that are included but referred to in footnotes. A better approach would be to have a more comprehensive list of required disclosures. We note that the ‘footnote’ disclosures are a mixture of items. Some are expected to be included as line items in the primary financial statements but are referred to as “disclosures” (for instance in IAS7), but others are key issues such as material uncertainties about the going concern

assumption that would be expected to be in the notes to the financial statements along with the other specifically required items.

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)?

We support the approach proposed of updating the standard at the same time as the amendments to IFRS or issue of new standards. Any changes in the disclosures in the IFRS for SMEs that arise from the current review of that standard should be made where relevant.