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Dear Sir

Exposure Draft ED/2021/7: Subsidiaries without Public Accountability: Disclosures

We are pleased to comment on the above Exposure Draft (the ED). Following consultation with the BDO network[1], this letter summarises views of member firms that provided comments on the DP.

We support the efforts of the IASB to increase the use of the recognition, measurement and disclosure requirements of IFRS, while also reducing the cost of preparing financial statements. While we are broadly supportive of the project, we believe that the IASB should consider broadening the scope of the draft Standard to all entities without publicly accountability. As explained in Appendix A, we do not believe there is a conceptual reason to limit the application of the draft Standard to only non-publicly accountable entities that are also subsidiaries with parents that produce 'full' consolidated IFRS financial statements.

However, we do not agree with the proposed approach for the development of the disclosure requirements, of using the IFRS for SMEs as a starting point which we consider could result in complexities in future as the IFRS for SMEs is updated and additional new IFRS Accounting Standards are issued. We believe that a more appropriate approach would be to tailor the disclosure requirements in IFRS Accounting Standards using the principles developed by the Board when IFRS for SMEs was developed.

Our responses to the questions in the ED are set out in the attached Appendix.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them, please contact me at +44 (0)7875 311782 or by email at abuchanan@bdoifra.com.

Yours faithfully

Andrew Buchanan.

Andrew Buchanan

Global Head of IFRS and Corporate Reporting

Appendix

Question 1

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 in the draft Standard. We believe it would be useful to permit certain entities to apply the recognition, measurement and presentation requirements of IFRS Accounting Standards (IFRS) while reducing the required disclosures.

In our experience, many entities that apply IFRS (or might choose to apply IFRS) would benefit from this proposal, which would reduce the number of special purpose frameworks used (e.g. reporting packages for the purposes of producing an ultimate parent's consolidated financial statements). The draft Standard would also reduce costs for preparers of financial statements, as it would encourage more entities in group structures to apply consistent recognition, measurement and presentation requirements.

While we agree with the objective in the draft Standard, we believe that the scope of 'eligible subsidiaries' should be expanded. Refer to our response to question 2.

Question 2

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?

We agree with criterion (b) in paragraph 6 of the draft Standard, however, we believe that the draft Standard should not limit its scope to entities that are subsidiaries with an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS (paragraphs (a) and (c)).

Our view is consistent with the alternative view expressed by Ms. Flores in the basis for conclusions to the exposure draft. Particularly, that the approach set out in the draft Standard is built upon IFRS for SMEs and the concept of a lack of public accountability. When IFRS for SMEs was developed, the criteria in paragraph 6(a) and (c) of the draft Standard were not considered, therefore, we do not understand why they are relevant now.

We observe that an entity that meets all of the eligibility criteria in paragraph 6 to apply the draft Standard would also meet the eligibility criteria to apply IFRS for SMEs, subject to applicable law and regulation in the entity's jurisdiction. If entities are permitted to apply IFRS for SMEs, which would have similar disclosure requirements to the draft Standard but significantly less robust recognition, measurement and presentation requirements compared to the draft Standard, we do not believe there is a compelling reason to limit the application of the draft Standard to only entities meeting criteria (a) and (c).

To illustrate, assume Entities A and B are located in jurisdiction X and neither have public accountability. Entities A and B both operate in the retail industry. Entity A is a subsidiary whose ultimate parent produces ‘full’ consolidated IFRS financial statements available for public use. Entity B is not a subsidiary. Jurisdiction X permits Entities A and B to either apply IFRS for SMEs or IFRS, including the application of the draft Standard. We analyse the criteria included in the draft Standard as applicable to entities A and B as follows:

Criteria	***Entity A***	***Entity B***
6(a) – subsidiary?	Yes	No
6(b) – does not have public accountability?	Yes	Yes
6(c) – has a parent that produces ‘full’ consolidated IFRS financial statements?	Yes	No

Therefore, Entity A may apply the draft Standard to reduce its required disclosures in applying IFRS, while Entity B may not because it does not meet criteria (a) and (c). We do not believe there is a conceptual reason why two entities, neither of which have public accountability, should not have the same options in preparing their financial statements in accordance with IFRS.

The draft Standard proposes that it is an acceptable trade-off in terms of information and cost for some entities to prepare IFRS-compliant financial statements with reduced disclosures. While it could be argued that Entity A is included in the consolidated disclosures of its parent, meaning a user could obtain the ‘missing’ information from Entity A’s separate financial statements, a user of the ultimate parent’s financial statements is unlikely to be able to obtain the information missing from Entity A’s financial statements in this manner. This is because in many cases the ultimate parent’s financial statements will not include such a granular level of disclosure.

We also agree with the alternative view expressed in the basis for conclusions that by restricting the application of the draft Standard to entities meeting the criteria in paragraph 6(a) and (c), this also restricts jurisdictions in deciding whether to permit the application of the draft Standard. If a jurisdiction wished to permit the draft Standard to be available to all non-publicly accountable entities, such entities would be unable to express compliance with IFRS as issued by the IASB because of paragraph 6(a) and (c). We believe that for non-publicly accountable enterprises, individual jurisdictions should be empowered to determine when such reduced disclosure regimes should be available or not.

We believe it would be more appropriate to permit the application of the draft Standard to entities that meet criterion (b) in the draft Standard only. Individual jurisdictions could then decide whether to place further restrictions on its application, as has been the approach of many jurisdictions in developing their own reduced disclosure regimes (e.g. Australia, the United Kingdom, etc.).

For example, continuing from our earlier example, if Entity A and B are both non-publicly accountable, however, Entity A is sufficiently large in terms of total assets, turnover, etc., then standard setters and/or regulators in jurisdiction X could limit the application of the draft Standard by Entity A by passing applicable law or regulation. We believe this basis of forbidding/permitting the application of the draft Standard would be more appropriate than what is proposed in the exposure draft.

Finally, we observe that many entities that are not yet publicly accountable may wish to apply IFRS, but are concerned with the cost of preparing 'full' IFRS compliant financial statements. For example, entities considering a public listing in the near term or with an aim to be acquired by a publicly listed entity may wish to comply with the recognition, measurement and disclosure requirements of IFRS to simplifying the listing and/or acquisition process (e.g. an initial public offering or a regulatory report which must include the financial information of the target entity using the recognition, measurement and presentation requirements of IFRS). Broadening the scope of the draft Standard would simplify this process and reduce costs (e.g. conversions to IFRS in a short period of time in order to meet listing and/or acquisition requirements).

Question 3

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?

We do not agree with the approach taken in developing the proposed disclosure requirements. We believe this approach would result in complex maintenance requirements for the Board because they would require the disclosure requirements in the draft Standard to be revisited both when changes are made to IFRS for SMEs and when new IFRS Accounting Standards are developed.

We note that the revenue recognition requirements in IFRS differ significantly from IFRS for SMEs, therefore, the approach taken by the Board in developing disclosure requirements in the draft Standard could not use IFRS for SMEs as a 'base'. IFRS for SMEs is updated irregularly, therefore, when the revenue recognition requirements of IFRS for SMEs are updated, the disclosure requirements in the draft Standard would have to be revisited to determine if they should be adjusted to conform with the disclosures in IFRS for SMEs. We believe that this could lead to a significant burden in future for both standard setting and for preparers, because there is a growing disconnect between IFRS Accounting Standards and the IFRS for SMEs, with the IFRS for SMEs not yet having been updated for a growing number of more recently issued IFRS Accounting Standards.

We also note that the new Standard for subsidiaries without public accountability would, as proposed, apply only to entities that are subsidiaries of a parent that prepares consolidated financial statements in accordance with IFRS Accounting Standards. The parent would need to include information about its subsidiaries in its own disclosures; a requirement for those subsidiaries to produce limited disclosures that (to the extent they are provided) are fully in accordance with IFRS Accounting Standards would enable those disclosures to be used by the parent without adjustment, and would therefore assist in reducing the administrative burden.

We believe a more appropriate approach would be to tailor the disclosure requirements in IFRS Standards using the principles developed by the Board when IFRS for SMEs was developed (BC33).

Question 4

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?

We agree with the exceptions for the reasons included in the basis for conclusions.

(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?

We agree with the simplified version of the requirements in paragraphs 44A-44E in IAS 7. In our experience, subsidiaries would have already prepared this information to provide to its parent for purposes of the parent's consolidated financial statements.

However, as we have noted in our response to question 2, we believe that the scope of the draft Standard should be expanded to entities other than subsidiaries. Despite this, we still agree with the simplified version of the disclosure because we believe it strikes an appropriate balance between the information needs of users, who often rely on cash flow information for non-publicly accountable enterprises, and simplifying the preparation of financial statements.

Question 5

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 with the proposal because requirements relating to an entity's transition to a new IFRS apply only once, therefore, we do not believe the costs of modifying the requirements in IFRS are outweighed by the benefits, being reduced costs for preparers.

Question 6

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.*

We agree with this approach. Despite the fact that some non-publicly accountable entities may issue contracts within the scope of IFRS 17, we believe these cases to be limited because the overwhelming majority of insurance contracts are issued by publicly accountable entities, which could not apply the draft Standard. Therefore, we believe any reductions in the disclosure requirements of IFRS 17 would have limited practical benefit.

Question 7

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?

We do not agree that the disclosures required by IFRS 1 should be reduced for an entity preparing its first IFRS financial statements. This is for the reasons noted in our response to question 5. An entity transitioning to IFRS typically does so only once, meaning the disclosures required by IFRS 1 are a 'one time' cost. Additionally, the disclosure requirements of IFRS 1 are extensive because the extent to which an entity's previous financial reporting framework might differ from IFRS varies considerably, therefore, the disclosure requirements in IFRS 1 are crucial in allowing financial statement users to understand how the transition was accounted for.

Question 8

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 disclosure requirements, however, we emphasise our response to question 3, which notes that we do not agree with the approach developed by the Board in determining the required disclosures.

Question 9

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?

We agree with the structure of the draft Standard. We believe that a complete list of the disclosures required by the draft Standard in a single location would be useful to preparers of financial statements, as it would function as a practice aid or 'checklist' in preparing financial statements.

While we agree, we do observe that this project has highlighted that IFRS uses certain terms inconsistently. For example, in paragraphs 39-40 of the draft Standard, footnote 6 states:

> In addition to the disclosures required by this [draft] Standard when an entity has applied IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, the following paragraphs in IFRS 5 use the word 'disclose' in requirements that remain applicable: paragraphs 12, 33(a) and 34.

We believe this footnote has been added because paragraphs 12, 33(a) and 34 of IFRS 5 use the word 'disclose', however, they generally refer to presentation requirements in the primary financial statements. The footnote is meant to clarify that despite the fact that these requirements do not appear in the body of the draft Standard, they still must be applied by an entity electing to use the draft Standard.

We recommend that the IASB consider a maintenance project to enhance the consistency of terminology used in IFRS, which would reduce the need for these footnotes in the draft Standard and also enhance the understandability of the requirements of IFRS.

Question 10

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 have no other comments.