

UKEB FEEDBACK STATEMENT

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

[DRAFT FOR BOARD REVIEW]

February 2022

The UK Endorsement Board (UKEB) is responsible for endorsement and adoption of IFRS for use in the UK and therefore is the UK's National Standard Setter for IFRS. The UKEB also leads the UK's engagement with the IFRS Foundation (Foundation) on the development of new standards, amendments and interpretations.

The comment letter to which this feedback statement relates forms part of those influencing activities and is intended to contribute to the Foundation's due process. The views expressed by the UKEB in this letter are separate from, and will not necessarily affect the conclusions in, any endorsement and adoption assessment on new or amended International Accounting Standards undertaken by the UKEB.

CONTENTS

Purpose of this feedback statement	04
The IASB's Exposure Draft	05
Summary of IASB's proposals	06
Outreach approach	07
UKEB and stakeholder views	08-11

Purpose of this feedback statement

This feedback statement presents the views of UK Stakeholders received during the UKEB's outreach activities on the IASB's Exposure Draft *Subsidiaries without Public Accountability: Disclosures* and explains how the UKEB's comment letter addressed those views.



The IASB's Exposure Draft

This exposure draft forms part of IASB's *Disclosure Initiative – Subsidiaries without Public Accountability: Disclosure* project. The objective of the project is to develop a voluntary accounting standard that would permit eligible subsidiaries to apply reduced disclosure requirements so long as they apply the recognition, measurement and presentation requirements in IFRS Standards.

This aims to reduce the cost of financial reporting for subsidiaries that report to a parent applying IFRS Standards whilst maintaining the usefulness of the subsidiary's financial statements to users.



Summary of IASB's Proposals

The IASB has developed the disclosure requirements starting with the disclosure requirements in the *IFRS for SMEs* Standard.

- i. Scope—describes the eligibility criteria.
- ii. Developing the proposed disclosure requirements— describes the approach to tailoring the disclosure requirements in full IFRS if there is a recognition and measurement difference between IFRS and the *IFRS for SMEs* Standard.
- iii. Proposed reduced disclosure requirements— set out the proposed reduced disclosure requirements for each related IFRS .
- iv. *IFRS 17 Insurance Contracts*—requires full IFRS 17 disclosures for subsidiaries that issue insurance contracts with the scope of IFRS 17 and do not have publicly accountability (i.e. captive insurers).

The objective of the ED is similar to that of the UK's FRS 101 *Reduced Disclosure Framework*.

Outreach approach

The UKEB's outreach activities took place between November 2021 and January 2022.

The outreach approach was underpinned by the UKEB's guiding principles of thought leadership, transparency, independence and accountability.

The outreach activities with UK stakeholders indicated overall support for the objective of the ED but revealed a number of concerns with the proposals.

All comments and views were considered in reaching the UKEB final views on the questions raised.

Outreach activities included:

- hosting a series of roundtables events with stakeholder groups which included preparers, auditors/accounting firms ;
- discussion with a professional body and a technical group;
- one to one meetings with preparers, users and regulators;
- an online preparer survey;
- an online user survey;
- public consultation on the UKEB's draft comment letter; and
- a pre-recorded educational video in collaboration with the IASB.

In total 24 stakeholders representing 19 organisations, and two professional body/technical group engaged in outreach activities as follows.

Stakeholder type	Stakeholders	Organisations represented
Preparers	12	10
Auditors & Accounting Firms	5	5
Regulators	3	2
Users	4	2
Professional bodies/ technical group*		2

*The professional bodies/technical group have multiple members, often representing a variety of stakeholder types.

I. Scope

IASB proposal	Initial stakeholder views and UKEB draft position	Further stakeholder views	UKEB final position
<p>A subsidiary would be eligible to apply the draft Standard if it:</p> <p>a) does not have public accountability; and</p> <p>b) has a parent that produces publicly available consolidated financial statements that comply with IFRS.</p>	<p>Scope:</p> <ul style="list-style-type: none"> • Agrees with restricting the scope to subsidiaries without public accountability. • Recommends extending the scope to include an ultimate parent’s individual financial statements, that does not itself have public accountability. 	<p>Scope:</p> <ul style="list-style-type: none"> • General agreement with restricting the scope to subsidiaries without public accountability. • Supported extending the scope to ultimate parent’s individual financial statements. 	<p>Scope:</p> <p>No change as consistent with the draft position.</p>
		<p>Eligibility criteria:</p> <p>One stakeholder disagreed with the requirement that the parent company should prepare consolidated financial statements that comply with IFRS as it would prohibit subsidiaries with parent producing non-IFRS consolidated financial statements from applying the draft Standard.</p>	<p>Eligibility criteria:</p> <p>The issue is highlighted in the Comment letter.</p>

2. Definition of public accountability and disclosure requirements about insurance contracts

IASB proposal	Initial stakeholder views and UKEB draft position	Further stakeholder views	UKEB final position
<p>An entity has public accountability if:</p> <ul style="list-style-type: none"> a) its debt or equity instruments are traded in a public market; or b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. 		<p>One stakeholder recommended removing the reference to 'hold assets in a fiduciary capacity for a broad group of outsiders' in the definition of public accountability to allow insurance entities which are not listed on a stock exchange or captive insurers to benefit from the reduced disclosures whilst providing full IFRS 17 <i>Insurance Contracts</i> disclosures.</p>	<p>Explicit support for the ED's definition of public accountability – entities holding assets in a fiduciary capacity are considered publicly accountable in the UK</p>
<p>Does not propose to reduce the disclosure requirements of IFRS 17 <i>Insurance Contracts</i> for subsidiaries that issue insurance contracts with the scope of IFRS17 and do not have public accountability i.e. captive insurers.</p>	<p>Disagrees with the ED's proposal not to reduce the disclosure requirements of IFRS 17 for subsidiaries that are not publicly accountable.</p>	<p>Stakeholders were concerned that the application of the element of 'fiduciary capacity' requires judgement.</p>	<p>Recommends additional guidance on 'fiduciary capacity' be incorporated in the standard</p>
		<p>Mixed views—Most stakeholders generally noted that full IFRS 17 disclosures would be onerous for a subsidiary without public accountability. One stakeholder was of the view that user's information needs are better served with full IFRS 17 disclosures.</p>	<p>Consistent with the draft position.</p>

3. Approach to developing the disclosure requirements

IASB proposal	Initial stakeholder views and UKEB draft position	Further stakeholder views	UKEB final position
<p>Uses the disclosure requirements in the <i>IFRS for SMEs</i> Standard as a starting point (the “bottom up” approach).</p>	<p>Disagrees with IASB’s ‘bottom-up approach’ and recommends the ‘top-down approach’ similar to FRS 101. Highlighted the benefits of the ‘top-down approach.’</p>	<p>Stakeholders supported the ‘top-down approach’ and noted it was easier to apply, is consistent with the project objectives and disclosure requirements in full IFRS.</p>	<p>Consistent with the draft position.</p>
<p>Where differences in recognition and measurement requirements in IFRS Standards and in the <i>IFRS for SMEs</i> Standard are identified, tailors the disclosure requirements in IFRS Standards by applying the principles that identify the information that users find important i.e short-term cash flows liquidity and solvency etc.</p>	<p>Supports the proposed principles used to identify users’ information needs.</p>	<p>Users agreed with the principles used to identify information needs.</p> <p>Stakeholders recommended incorporating consideration of costs and benefits when developing future disclosure requirements.</p>	<p>Consistent with the draft position.</p> <p>Recommends consideration of costs and benefits when developing future disclosure requirements for inclusion in the proposed standard.</p>

4. The proposed reduced disclosure requirements

IASB proposal	Initial stakeholder views and UKEB draft position	Further stakeholder views	UKEB final position
<p>Set out the proposed reduced disclosure requirements.</p>	<p>Recommends removing the disclosure requirements for:</p> <ul style="list-style-type: none"> • IFRS 2 <i>Share-based Payment</i> • IFRS 7 <i>Financial Instruments : Disclosures</i> (except in relation to the disclosures in IFRS 7 relating to liquidity risk) and • IFRS 13 <i>Fair Value Measurement</i>. 	<p>Stakeholders agreed with the UKEB draft position on IFRS 2,7 and 13.</p>	<p>Consistent with draft position.</p>
	<p>Seeks stakeholder views on exempting eligible subsidiaries from preparing a statement of cash flows under certain circumstances.</p>	<p>Stakeholders had mixed views on exemptions for the statement of cash flows and related party disclosures. Preparers strongly supported exemptions on the ground of costs saving, whilst users find them useful information for decision making.</p>	<p>Does not support exemptions for producing a statement of cash flows and related party disclosures.</p>

Disclaimer

This feedback statement has been produced in order to set out the UKEB's response to stakeholder comments received on IASB's Exposure Draft *Subsidiaries without Public Accountability: Disclosures* and should not be relied upon for any other purpose.

The views expressed in this feedback statement are those of the UK Endorsement Board at the point of publication.

Any sentiment or opinion expressed within this feedback statement will not necessarily bind the conclusions, decisions, endorsement or adoption of any new or amended IFRS by the UKEB.

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