UK Endorsement Board

Dr Andreas Barckow
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Dear Dr Barckow

IASB Exposure Draft *Subsidiaries without Public Accountability: Disclosures*

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. This letter 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.

There are currently approximately 1,500 entities with equity listed on the London Stock Exchange that prepare their financial statements in accordance with IFRS[1]. In addition, UK law allows unlisted companies the option to use IFRS and approximately 14,000 such companies currently take up this option[2].

We welcome the opportunity to provide comment on the IASB's Exposure Draft *Subsidiaries without Public Accountability: Disclosures* (the ED). To develop our response our work has included in-house research, a preparer survey, a user survey, and feedback received during stakeholder roundtables and interviews. Based upon this work:

1. We support the IASB's efforts to develop an IFRS that would permit eligible subsidiaries to apply recognition and measurement requirements in full IFRS, but with a reduced set of disclosure requirements. It should be noted that subsidiaries without public accountability usually have few users of their financial statements, primarily parent entities, non-controlling shareholders, and providers of credit such as bank credit departments. Some of these users, namely parent entities, can request additional information from management and therefore financial statements are not their single source of information. We anticipate that the draft proposals will result in cost savings and reductions in complexity for subsidiaries without

[1] UKEB calculation based on LSEG and Eikon data. This calculation includes companies listed on the Main market as well as the Alternative Investment Market (AIM).
[2] UKEB estimation based on FAME, Companies Watch and other proprietary data.

public accountability that report to a parent applying IFRS in their consolidated financial statements. Other potential benefits include disclosures that are proportionate to the needs of users of these financial statements and reduced audit work.

2. Reflecting on the UK experience, we acknowledge the cost of producing full IFRS disclosures in individual entities' financial statements would be disproportionate given the expectation that there will be very few, if any, users external to the group. In the UK Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101), provides a reduced disclosure framework for qualifying entities. In particular, it allows eligible entities to apply the recognition, measurement and presentation requirements of UK-adopted international accounting standards but with reduced disclosure to reduce the cost of preparing financial statements. FRS 101 can be applied when preparing individual financial statements of subsidiaries and ultimate parents. Our desk-based research and outreach with stakeholders identified widespread use of FRS 101 in the UK and the resulting positive impact derived from the cost-reduction in preparing financial statements for entities in scope. Stakeholders have told us that the FRS 101 disclosure exemptions are more effective at achieving the objective of reducing the cost of preparing financial statements for such entities when compared with the ED's proposals. As a result, we expect that UK groups with only UK registered subsidiaries are likely to maintain the status quo by continuing to use FRS 101. However, our expectation is that the draft standard will be attractive to UK groups with overseas subsidiaries, where the group prepares consolidated financial statements in accordance with IFRS or equivalent frameworks. Permitting UK and overseas subsidiaries to use the draft standard will achieve uniformity in financial information submitted by the subsidiaries for incorporation into the group financial statements as well as preparation of their own financial statements.

3. We broadly agree with the proposed scope set out in the ED—that the draft standard would be available only to subsidiaries without public accountability. However, we recommend that the IASB extends the scope so that an ultimate parent of a group, that does not itself have public accountability, may also take advantage of the reduced-disclosure framework when preparing its individual financial statements.

4. UK stakeholders have shared concerns about the proposals in the ED paragraph 6 (c), which only permits the use of the draft standard to a subsidiary whose ultimate or intermediate parent produces consolidated financial statements in accordance with IFRS. We believe this will limit the uptake of the draft standard because non-publicly accountable subsidiaries of consolidated groups where the group accounts available for public use are prepared on an equivalent framework to IFRS, such as US GAAP, will not be eligible to use the draft standard. The users of these subsidiaries' financial statements and their information needs are no different to subsidiaries whose parents produce group accounts complying with IFRS. Whilst we acknowledge the IASB's rationale for not addressing this issue, our preferred approach is for the IASB to undertake further research and outreach to address this issue at an international level, as we believe this may be a prevalent issue in other jurisdictions. Failing an international solution, we think that this issue may warrant local jurisdiction-based solutions, for example, by extending the scope as currently set out in the ED to incorporate accounting regimes deemed equivalent by the local listing authorities.

5. We suggest that the IASB reconsiders its 'bottom-up approach' to reduced disclosure and consider aligning it more closely with the 'top-down approach' that the UK experience has demonstrated as being cost effective for preparers and which provides decision-useful information for users. As a minimum, there is merit in developing a clear link between full IFRS and the reduced disclosures in the draft standard, so that subsidiary preparers can easily navigate from the "full IFRS" package they will use in providing the information for the group accounts to the "reduced disclosure" package for their own statutory accounts.

6. Our stakeholder outreach has identified further streamlining of some of the disclosures proposed by the ED. Two main areas suggested by UK stakeholders include the disclosure requirements of IFRS 7 *Financial Instruments: Disclosures* and IFRS 13 *Fair Value Measurement*. More information is included in Appendix 1 to this letter.

7. We recommend that, in addition to the ED paragraph 165(b) requiring subsidiaries to provide the name of the group entity that consolidates the entity's results and financial performance, subsidiaries should also be required to disclose in the notes the name of the entity in the group that reports on the IFRS 7 risk management and the IFRS 13 fair value disclosures. We believe such a cross reference will be helpful to the users of the accounts.

8. It is not entirely clear from the ED how the specific information needs of users of subsidiaries' financial statements were considered when balancing relief for preparers. We believe it is an important consideration to maintain the usefulness of the financial statements to the users of those subsidiaries' financial statements. We recommend the IASB should consider including a clearer articulation of the users' information needs and how these reduced disclosures address them. This should include specific consideration of the information needs of non-controlling shareholders and bank credit departments, who are likely to be the main users of these entities' financial statements as their needs have not been specifically addressed in the ED.

9. We are aware of a few entities in the UK, mainly 'captive insurers', that issue insurance contracts within the scope of IFRS 17 *Insurance Contracts* and may be within the scope of this ED. We therefore do not support the ED proposals that subsidiaries that are not publicly accountable should provide the full IFRS 17 disclosure requirements. The concerns about the balance between undue costs for preparers and users' information needs are equally applicable for these companies. We are concerned that taking this approach to a recently issued standard, i.e. observing its application before arriving at a reduced disclosure framework, could create a precedent for any new IFRS issued in the future. Our preferred approach would be for the IASB to propose reduced disclosures for subsidiaries without public accountability as part of the exposure drafts for any new or amended IFRS.

If you have any questions about this response, please contact the project team at UKEndorsementBoard@endorsement-board.uk

Yours sincerely

Pauline Wallace
Chair
UK Endorsement Board

Appendix 1 Questions on ED *Subsidiaries without Public Accountability: Disclosures.*

UKEB UK Endorsement Board

Appendix 1: Questions on ED *Subsidiaries without Public Accountability: Disclosures*

Objective

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?

Objective

A1 We support the IASB's effort to develop an IFRS with a reduced disclosure framework, permitting subsidiaries without public accountability to prepare their financial statements by applying the recognition and measurement requirements of IFRS with reduced disclosures.

A2 It should be noted that there are few external users of financial statements of subsidiaries without public accountability, primarily parent entities, non-controlling shareholders, and providers of credit such as bank credit departments. A significant number of these users can request additional information directly from management and therefore are unlikely to rely solely on financial statements for their information needs.

A3 The objective of the ED is similar to that of the UK's FRS 101 *Reduced Disclosure Framework*[3], which sets out an optional reduced disclosure framework for the individual financial statements of subsidiaries and ultimate parent entities, that otherwise apply the recognition, measurement and disclosure requirements of UK-adopted IFRS.

[3] https://www.frc.org.uk/getattachment/79ad656b-f886-4c74-8d09-73281c5a6251/FRS-101-(January-2022)(1).pdf

A4 Feedback from stakeholders identified widespread use of FRS 101 in the UK and a resulting positive impact on cost-effectiveness in preparing financial statements for entities within its scope. The cost of producing full IFRS disclosures in individual entities' financial statements would be disproportionate given the expectation that there will be very few, if any, users external to the group. We would expect similar benefits in general for entities that opt to use the draft IASB standard given that both standards apply to subsidiaries. However, the use of FRS 101:

a. is not restricted to entities without public accountability;
b. is available to parent companies when preparing their individual financial statements;
c. may not be used for consolidated financial statements; and
d. does not require that the financial statements of the parent entity, into which the entity is consolidated, are prepared in accordance with IFRS–only that they are intended to give a true and fair view.

A5 Outreach with preparers indicated that the ED is expected to be attractive to UK groups with overseas subsidiaries, where the group prepares consolidated financial statements in accordance with IFRS or equivalent frameworks. Permitting UK and overseas subsidiaries to use the draft standard will achieve uniformity in providing financial information for incorporation in the group financial statements. Such groups can see a number of benefits from aligning the financial reporting framework of their subsidiaries worldwide, including consistency of reporting to the parent for the purposes of preparing the consolidated financial statements and resulting cost savings for both parents and subsidiaries.

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?

Scope

A6 We broadly agree with the proposed scope which is in line with the objective of the project – to provide disclosure relief for subsidiaries whose parent prepares consolidated financial statements in accordance with IFRS.

A7 However, we propose that the IASB extends the scope so that an ultimate parent of a group, that does not itself have public accountability, may also take advantage of the reduced-disclosure framework when preparing its individual financial statements.

A8 UK stakeholders have shared concerns about the proposals in the ED paragraph 6 (c), which only permits the use of the draft standard by a subsidiary whose ultimate or intermediate parent produces consolidated financial statements in accordance with IFRS. We believe this will limit the uptake of the draft standard because non-publicly accountable subsidiaries of consolidated groups where the group accounts available for public use are prepared on an equivalent framework to IFRS, such as US GAAP, will not be eligible to use the draft standard. The users of these subsidiaries' financial statements and their information needs are no different to subsidiaries whose parents produce group accounts complying with IFRS. Whilst we acknowledge the IASB's rationale for not addressing this issue, our preferred approach is for the IASB to undertake further research and outreach to address this issue at an international level, as we believe this may be a prevalent issue in other jurisdictions. Failing an international solution, we think that this issue may warrant local jurisdiction-based solutions, for example, by extending the scope as currently set out in the ED to incorporate accounting regimes deemed equivalent by the local listing authorities.

A9 Whilst we support the definition of public accountability in the ED, stakeholders are concerned that the application of the second criterion in the definition i.e. '*holds assets in a fiduciary capacity for a broad group of outsiders*' requires judgement, in particular where activities are carried out by subsidiaries on behalf of clients but do not hold their assets. We note that the IASB has provided some guidance in the Supporting Material for the *IFRS for SMEs* Standard Module 1—Small and Medium-sized Entities[4] on the interpretation of the concept 'fiduciary capacity' in the definition of public accountability. This concept is not currently defined in IFRS and therefore unfamiliar to stakeholders. We therefore recommend this guidance is included in the final standard to achieve consistency on what is intended by the concept and help reduce the risk of misinterpretation or diversity in practice. We also recommend that the IASB revisits this guidance as we believe additional guidance is needed to provide clarity and assist with the application of the concept. The UKEB Secretariat would be happy to assist IASB staff in that process.

[4] https://www.ifrs.org/content/dam/ifrs/supporting-implementation/smes/module-01.pdf

Developing the proposed disclosure requirements

Question 3: Approach to developing the proposed disclosure requirements
In developing the proposed disclosure requirements, the Board used the disclosure requirements from the *IFRS for SMEs* Standard, with minor tailoring, when the recognition and measurement requirements in IFRS Standards and the *IFRS for SMEs* Standard were the same. When the recognition and measurement requirements differed between IFRS Standards and the *IFRS for SMEs* Standard, the Board: (a) added disclosure requirements for topics or accounting policy options that are addressed in IFRS Standards but omitted from the *IFRS for SMEs* Standard. To do so, the Board applied (to the disclosure requirements in IFRS Standards for that topic or policy option) the principles it used when developing the disclosure requirements in the IFRS for SMEs Standard. (b) deleted disclosure requirements relating to accounting policies available in the *IFRS for SMEs* Standard but not in IFRS Standards. The Board applied this approach so the disclosure requirements proposed in the draft Standard would be sufficient to meet the needs of users of the financial statements. After applying that approach, the Board reviewed the outcome and in a limited number of cases, proposed some exceptions. 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?

Approach to developing the proposed disclosure requirements

A10 Outreach with stakeholders has indicated some concern with IASB's 'bottom-up approach' to developing the proposed disclosure requirements. They note that this approach would require significant effort from preparers to determine the required disclosures since preparers of subsidiary financial statements may not be familiar with the *IFRS for SMEs* Standard. In addition, a stakeholder expressed concern that the use of different wording between full IFRS and the draft standard might lead to unclear disclosure requirements and as a result a new set of interpretation may develop. Therefore, in their view this approach does not align with the objective of reducing costs for subsidiaries.

A11 Stakeholders suggest that a 'top-down approach', starting with the full IFRS disclosure requirements and considering exemptions, is better and easier to apply in practice. In the UK, this was the approach adopted in developing FRS 101. On the basis of the UK experience, there are a number of additional advantages of this approach. For example, it would result in consistency of language between the draft standard and full IFRS, which is deemed particularly helpful by stakeholders when transitioning to the draft standard. In addition, the 'top-down approach' better reflects the needs of the users of these accounts, who are unlikely to be familiar with the disclosure requirements of the *IFRS for SMEs* Standard. A further advantage of this approach is that it would facilitate more timely development of reduced disclosures for new standards, as it would bypass the need for incorporation into the *IFRS for SMEs* Standard proposed under the current IASB process.

A12 In light of the stakeholder feedback, we suggest that the IASB reviews its 'bottom-up approach' and consider aligning it more closely with the 'top-down approach' that the UK experience has demonstrated as being cost effective for preparers and which provides decision-useful information for users. As a minimum, there is merit in developing a clear link between full IFRS and the draft standard, so that subsidiary preparers can easily navigate from the "full IFRS" package they will use in providing the information for the group accounts to the "reduced disclosure" package for their own statutory accounts. We also note that the *Conceptual Framework for Financial Reporting* defines primary users (of general purpose financial reports) as existing and potential investors, lenders and other creditors[5]. By contrast, the *IFRS for SMEs* Standard does not specifically define primary users, although the Basis for Conclusion refers to the main groups of external users i.e. banks that make loans to SMEs, vendors that sell to SMEs and use SMEs' financial statements to make credit and pricing decisions[6]. Given the different user bases of the two sets of standards, we question the proposals in the ED to use the disclosure requirements in the *IFRS for SMEs* Standard as the base rather than those in full IFRS.

A13 We support the principles the IASB used to assess the needs of users of financial statements, as we agree that these users are likely to be focused on information about short-term cash flows, obligations, commitments or contingencies, liquidity, solvency, measurement uncertainties, accounting policy choices and disaggregation of amounts in the financial statements. In addition, we recommend that the IASB incorporate consideration of costs and benefits when developing future disclosure requirements for this proposed IFRS that are aligned with the objective of the ED, i.e. to reduce the cost of financial reporting for subsidiaries without public accountability.

A14 We note the principles explained in paragraph BC34 of the Basis for Conclusions of the ED. However, it is not entirely clear from the ED how the specific information needs of different users of subsidiaries' financial statements were considered when balancing relief for preparers. For example, the needs of users of accounts of subsidiaries that are 100% owned by the group may be significantly different to those with non-controlling interests outside the group. We believe it is an important consideration in developing the disclosure requirements to maintain the usefulness of the financial statements to the users. We recommend the IASB should consider including a clearer articulation of the users' needs and how these reduced disclosures address them.

A15 We are also concerned that the ED does not explain the principles the IASB will consider in maintaining the draft standard in the future to ensure it continues to achieve its objectives of satisfying users' needs and cost-benefit considerations including reductions of costs for preparers.

[5] Paragraph 1.2 of the 2018 *Conceptual Framework for Financial Reporting*
[6] Paragraph BC80 of the Basis for Conclusions on the *IFRS for SMEs* Standard

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? (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 IAS 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?

Exceptions to the approach

A16 We broadly agree with the exceptions to the approach to developing the disclosure requirements. However, in some cases we recommend the rationale for making the exceptions are explained more clearly. For instance, the rationale for the exception to the approach relating to improvements to disclosure requirements in IFRS from IFRS 7 *Financial Instruments: Disclosures* and IFRS 13 *Fair Value Measurement* is not clear.

A17 We support the IASB's rationale in paragraph BC41 of the ED's Basis for Conclusion for removing disclosure objectives in the draft standard i.e it would compel entities to provide the same disclosures as if they had not applied the draft standard. In addition, we believe this will avoid the challenges with the objective-based approach to disclosures for subsidiaries without public accountability, as highlighted in our comment letter on IASB's *ED Disclosure Requirements in IFRS Standards – A Pilot Approach* (Proposed Amendments to IFRS13 and IAS 19)[7].

A18 Outreach with preparers suggested that the ED's requirement to include a reconciliation between the opening and closing balances for liabilities arising from financing activities in the statement of financial position would be consistent with information already reported

[7] https://assets-eu-01.kc-usercontent.com/99102f2b-dbd8-0186-f681-303b06237bb2/86412a90-0d00-40a0-9415-8325c030e272/Final%20Comment%20Letter%20-%20Disclosure%20Requirements%20in%20IFRS%20Standards%E2%80%94A%20Pilot%20Approach.pdf

by subsidiaries to parent entities, in order for the parent to comply with paragraphs 44A–44E of IAS 7 *Statement of Cash Flows*.

A19 Preparers indicated they would find this reconciliation easier to prepare compared to preparing a full statement of cash flows for the subsidiary. They suggest that this reconciliation would be more cost effective as the information required by the reconciliation is already reported by subsidiaries to the ultimate parent for the purpose of the disclosure in the consolidated financial statements. In their view, this reconciliation may also provide more useful information to users than a full statement of cash flows.

A20 However, bank lending departments we consulted with indicated that information about the cash flows of a subsidiary is useful in assessing repayment capacity. We therefore support the requirement to present a statement of cash flows, which is consistent with the principles used to assess the users' needs and the fair presentation requirements in IAS 1 *Presentation of Financial Statements* (requiring the financial statements to present fairly the financial position, financial performance and cash flows of an entity).

The proposed reduced disclosure requirements

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?

A21 We support the IASB's proposal that any disclosure requirements specified in an IFRS about the entity's transition to that Standard would remain applicable to an entity that applies the reduced disclosure IFRS. We believe such transition disclosures would provide useful information to users of subsidiaries' financial statements. In addition, such disclosure requirements are not recurrent and therefore no significant ongoing cost would be incurred. On balance, we think the benefits of the information to users would outweigh the one-off cost of providing the transition disclosures.

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.

Question 6: Disclosure requirements about insurance contracts
(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.

Disclosure requirements about insurance contracts

A22 There are relatively few subsidiaries in the UK that issue insurance contracts within the scope of IFRS 17 and which are not publicly accountable. Those that we have identified are mainly "captive insurers". However, we have reservations about supporting the ED proposals for subsidiaries that are not publicly accountable to provide full IFRS 17 disclosure requirements, as the undue costs for preparers and users' information needs rationale is similarly applicable for these companies.

A23 Furthermore, we are concerned that taking this approach to a recently issued standard, i.e. observing its application before arriving at a reduced disclosure framework, could create a precedent for any new IFRS the IASB issues in the future. Our preferred approach would be for the IASB to propose reduced disclosures for subsidiaries without public accountability as part of the exposure drafts for any new or amended IFRS.

Question 7: Interaction with IFRS 1 *First-time Adoption of International Financial Reporting Standards*
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?

Interaction with IFRS 1

A24 We support the IASB's proposal for reduced disclosure requirements for IFRS 1. We believe this approach is proportionate and practical and takes into consideration users' information needs for subsidiaries which are non-publicly accountable entities.

A25 We also welcome the IASB's clarification of the interaction of the draft standard with IFRS 1. We find the guidance on electing or revoking an election to apply the draft standard helpful and clear.

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?

The proposed reduced disclosure requirements

A26 Our stakeholder outreach and research work indicate that the proposed disclosure requirements set out in paragraphs 22 to 213 of the ED may be further reduced without unduly impacting the information needs of users. We include below disclosure requirements which we recommend are removed and our rationale:

Disclosure requirements in the ED	IASB's rationale for adding the disclosures into the draft standard	UKEB's rationale to remove the disclosure requirements in the draft standard
IFRS 2 *Share-based Payment*	These disclosures are required by the *IFRS for SMEs* Standard.	We believe the disclosure requirements in the draft standard for share-based payment arrangements are disproportionate and burdensome. Stakeholders shared similar concerns. We recommend the draft standard follows the approach of FRS 101. FRS 101 requires only a description of each type of share-based payment transaction. The other disclosures of IFRS 2 are exempted, provided that the entity is: • a subsidiary where the share-based payment arrangement concerns equity instruments of another group entity; or • an ultimate parent where the share-based payment arrangement concerns its own equity instruments and its separate financial statements are presented alongside the consolidated financial statements of the group; and, in both cases, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.

Disclosure requirements in the ED	**IASB's rationale for adding the disclosures into the draft standard**	**UKEB's rationale to remove the disclosure requirements in the draft standard**
IFRS 7 *Financial Instruments: Disclosures* IFRS 13 *Fair Value Measurement*	Users of subsidiaries' financial statements could benefit from these disclosure requirements and their inclusion in the draft Standard is supported by the principles used to develop the disclosure requirements in the *IFRS for SMEs* Standard. These disclosures are not required by the *IFRS for SMEs* Standard.	We note that the disclosure requirements for IFRS 7 and 13 in the draft standard are more extensive than those in the *IFRS for SMEs* Standard. These are disproportionately burdensome and add little value to users of subsidiaries' financial statements which often have few users that are external to the group. For example, a specific concern raised by stakeholders is that most groups would have a central treasury function which is used by the parent. Requiring subsidiaries to separately disclose its inter-group hedging would be onerous, costly to produce and unlikely to be useful to users of its financial statements. Furthermore, UK stakeholders have expressed specific concerns regarding the requirements in paragraph 79(c) of the ED to disclose for each class of assets and liabilities measured at fair value a description of the inputs used in the fair value measurement. They find this disclosure onerous. FRS 101 provides disclosure exemptions from IFRS 7 and 13, other than for financial institutions, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated. We recommend that the IASB takes a similar approach, except in relation to the disclosures in IFRS 7 relating to liquidity risk. We note that the draft standard excluded the disclosures on liquidity risk in IFRS 7. This is inconsistent with the principles the IASB used to assess the needs of users of financial statements which include liquidity as one of the pieces of information that these users are likely to be focused on. We therefore recommend that the disclosures on liquidity risk should be required by the draft standard. We consider that this approach is consistent with the focus in the draft standard on users' information needs. In addition, one stakeholder suggested that subsidiaries should be required to disclose in the notes the name of the entity in the group that reports on the IFRS 7 risk management and the IFRS 13 fair value disclosures. We support this approach and believe this cross reference will be helpful to the users of the accounts.

A27 Outreach with preparers strongly supported an equivalent exemption to that in FRS 101, exempting qualifying entities from the requirements in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member. However, users have indicated that such disclosures are useful in understanding transactions of subsidiaries within the group. For example, in relation to subsidiaries' financial statements a bank lending department told us that, '*related party disclosures cover a broad range of potential exposure and are extremely helpful to understand the connections within a group particularly if there is intra-group lending*'. We therefore support the disclosure requirements in the ED, as an exemption from disclosing related party transactions would result in loss of useful information to users of subsidiary financial statements.

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?

Structure of the draft standard

A28 We find the structure of the draft standard, where the disclosure requirements are organised by IFRS to be sufficiently clear.

A29 However, we find the way in which the draft standard sets out the disclosure requirements unhelpful. The ED includes those disclosure requirements that remain applicable via a footnote to eight headings relating to individual IFRS. For instance, for IFRS 16 *Leases*, a footnote is appended to state that in addition to the disclosure required by the draft standard, paragraph 47 of IFRS 16 which uses the word 'disclose' remains applicable. These footnotes can be confusing when determining the disclosure requirements of the draft standard. To improve the accessibility of the draft standard we recommend these footnotes are replaced with a comprehensive list of disclosure requirements within the main body of the draft standard. This approach would be more helpful and make the draft standard a stand-alone document. This would make it easier to understand as it would avoid the need for users to refer to other IFRS.

UKEB UK Endorsement Board

Other comments

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)?

Other comments

A30 IAS 1 *Presentation of Financial Statements*, paragraph 17(c) requires an entity to provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and performance. The ED states in footnote 8 that the requirements of IAS 1 paragraph 17(c) remain applicable. Those requirements refer to the additional disclosures to be provided when compliance with the required disclosures does not lead to fair presentation of the underlying transactions. Stakeholders found it difficult to understand how they would apply those requirements in the context of a reduced disclosure regime. We recommend additional guidance on how to apply this requirement in the context of the ED, for example, in the light of the principles used to assess the needs of users of financial statements which are likely to be focused on information about short-term cash flows, obligations, commitments or contingencies, liquidity, solvency, measurement uncertainties, accounting policy choices and disaggregation of amounts in the financial statements in order to achieve fair presentation as required by IAS 1 paragraph 15.

A31 We strongly support identification of consequential amendments to the draft standard when the IASB publishes an exposure draft of a new or amended IFRS. We believe this is a more efficient approach that would ensure the reduced disclosure requirements for eligible subsidiaries keep pace with standard development for the parent entity's consolidated financial statements.