

31 January 2022

Andreas Barckow
Chair
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London
United Kingdom

Dear Dr Barckow

ED/2021/7 *Subsidiaries without Public Accountability: Disclosures*

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's ('the Board') exposure draft *Subsidiaries without Public Accountability: Disclosures*.

We agree with the objective of the draft Standard which responds to requests from stakeholders. We expect that the draft Standard will significantly reduce the cost of preparing financial statements applying IFRS Standards for subsidiaries of parents that report using these standards. It will likely encourage such subsidiaries to apply IFRS Standards and thereby contribute to a more efficient group consolidation process.

We agree that the Standard should only be available to subsidiaries that do not have public accountability. However, in addition to the requirement to meet the definition of an entity without public accountability proposed in the draft Standard, we suggest that an entity would be permitted to apply the draft Standard only if all of its owners, including those not otherwise entitled to vote, and outsiders for which the entity holds assets in a fiduciary capacity have been informed about, and do not object to, the entity applying the draft Standard. We believe that this would ensure that users that rely on the financial statements of the subsidiary for their information needs are not deprived of information they require. It would also relieve some pressure from the potential risk that an entity would interpret too narrowly what constitutes a "broad group of outsiders".

We also agree with the proposal to limit the scope to subsidiaries of a parent that produces consolidated financial statements available for public use that comply with IFRS Standards. The Board could reconsider this decision at a later date, for example as part of an eventual post-implementation review of the draft Standard.

We agree with the approach taken to developing the proposed disclosure requirements using the IFRS for SMEs Standard as a starting point and generally agree with the proposed disclosures that result from the application of this approach. However, we note that unlike the IFRS for SMEs Standard, the draft Standard would be available only to entities that are subsidiaries. As a result, some of the disclosure requirements provided in the IFRS for SMEs Standard may not provide relevant information to the users of the financial

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statements of an entity that applies the draft Standard. Accordingly, we suggest that the approach to developing the proposed requirements should include an additional step which is to assess whether further reduction is warranted considering the more restricted group of users of financial statements of an entity that would be entitled to apply the draft Standard. In particular, we suggest that it may be appropriate to reconsider whether indeed the extensive disclosures required for IFRS 7 and IAS 19 are justified from a costs-benefits perspective considering the users of the financial statements of an entity applying the draft Standard.

Our detailed responses to the consultation questions are set out in the Appendix to this letter.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'V Poole', with a stylized flourish at the end.

Veronica Poole
Global IFRS and Corporate Reporting Leader

Appendix

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 draft Standard which responds to requests from stakeholders. We expect that the draft Standard will significantly reduce the cost of preparing financial statements applying IFRS Standards for subsidiaries of parents that report using these standards. It will likely encourage such subsidiaries to apply IFRS Standards and thereby contribute to a more efficient consolidation process.

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?

We agree that the Standard should only be available to subsidiaries that do not have public accountability. The concept of public accountability (along with the requirement that the entity is a subsidiary of a parent that prepares IFRS Standards) is appropriate to determine eligibility to reduced disclosures based on user needs and costs-benefits considerations.

We agree with the proposed definition of public accountability. This definition is already used in the IFRS for SMEs Standard and appears well understood. A similar definition is used also in certain jurisdictions (e.g. Australia and Canada) to identify entities entitled to apply a local GAAP instead of IFRS Standards. It appears that in these jurisdictions, a consistent understanding of the term has been reached. The Board may wish to reach out to these jurisdictions to ensure that this is the case or whether additional guidance has been issued to support the consistent application of that term (for example, guidance on identifying what constitutes a broad group of outsiders or when holding assets in a fiduciary capacity constitutes a primary business) and that could usefully be drawn upon to provide additional guidance in the draft Standard.

We note that IFRS 10 *Consolidated Financial Statements* requires that the owners of an entity that wishes to take advantage of the consolidation exemption have been informed about, and do not object to, the entity (a parent) not presenting consolidated financial statements. The Board should consider including a similar requirement in the draft Standard to ensure that minority shareholders that rely on the financial statements of the subsidiary for their information needs are not deprived of information they require. Further, in the context of the draft Standard, it may be appropriate to expand this requirement to outsiders for which the entity holds assets in a fiduciary capacity. Such a requirement would relieve some pressure from the potential risk that an entity would interpret too narrowly what constitutes a “broad group of outsiders”.

If the Board agrees with this suggestion an entity would be permitted to apply the draft Standard if all of its owners, including those not otherwise entitled to vote, and outsiders for which the entity holds assets

in a fiduciary capacity have been informed about, and do not object to, the entity applying the draft Standard.

Paragraph 6(c) of the draft Standard requires that the entity has an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Standards. We agree that application of the draft Standard is limited to subsidiaries of parents that report applying IFRS Standards. However, we suggest that consistent with IFRS 10:4(a)(iv), paragraph 6(c) should be expanded to refer to financial statements of the ultimate or an intermediate parent that comply with IFRS Standards, in which subsidiaries are consolidated *or are measured at fair value through profit or loss in accordance with IFRS 10*. We believe that the costs-benefits reasons given in IFRS 10:BC28C-BC29D apply also in the context of the draft Standard. This is particularly the case if application of the draft Standard is only permitted if the owners and outsiders for which the entity holds assets in a fiduciary capacity have been informed about, and have not objected to, application of that standard.

Finally, we support the Board's proposal to limit the scope to subsidiaries and exclude associates or joint ventures of the group. At this point, it is appropriate to focus on subsidiaries and monitor whether the Standard works well in practice. The Board could reconsider this decision at a later date, for example as part of an eventual post-implementation review of the draft Standard.

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?

We agree that using the IFRS for SMEs Standard is an appropriate starting point to identify the disclosure requirements in the draft Standard. This approach that relies on the approach used in the IFRS for SMEs Standard appears to be the most cost efficient from the Board perspective. This approach also benefits from the experience gained in the application of the IFRS for SMEs Standard which appears to result in useful information in financial statements of entities without public accountability.

However, we note that unlike the IFRS for SMEs Standard, the draft Standard would be available only to entities that are subsidiaries. As a result, some of the disclosure requirements provided in the IFRS for SMEs Standard may not provide relevant information to the users of the financial statements of an entity that applies the draft Standard. Accordingly, we suggest that the approach to developing the proposed requirements should include an additional step which is to assess whether further reduction is warranted considering the more restricted group of users of financial statements of an entity that would be entitled to apply the draft Standard. As noted in our response to Question 8, the proposed disclosure requirements for IFRS 7 would benefit from this additional assessment.

Going forward, the Board will need to consider an approach to develop timely reduced disclosure requirements when a new or amended IFRS Standards are developed. Indeed, it may be appropriate to update the draft Standard more frequently than 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 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?

- (a) We agree with the exceptions subject to the following comments:

- Defined benefit obligations: We are not convinced that the additional information proposed in the draft Standard as compared to the information required in the IFRS for SMEs Standard would in fact represent useful information to the users of the financial statements of entities applying the draft Standard. We suggest that the Board reconsider whether indeed the costs required to prepare this expanded reconciliation are justified.
- Disclosure objectives: Whilst we agree with the decision not to include disclosure objectives in the draft Standard, we note that this may need to be reconsidered if the Board decides to pursue *Disclosure Requirements in IFRS Standards – A Pilot Approach* project. See our response to Question 10.
- Improvements to disclosure requirements in IFRS Standards: The Board may wish to take advantage of the PIR on IFRS 15 and 16 to assess whether changes are required to the disclosures proposed in the draft Standard in relation to these Standards.

- (b) We agree with the proposal in paragraph 130 of the draft Standard. We note that indeed most often the requirements in IAS 7:44A–44E are satisfied through a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

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 with the proposed disclosure requirements about transition to other IFRS Standards.

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.

- (a) We agree that, at this point, the disclosure requirements for IFRS 17 should not be reduced. We believe that this decision can be reconsidered at a later time taking into account the experience gained from the application of IFRS 17. For example, this could be done as part of the post-implementation review of IFRS 17.
- (b) Except for entities identified in BC63 (i.e. captive insurers and corporate entities that may issue contracts that meet the definition of insurance contracts in IFRS 17), we are not aware of the extent to which entities that issue insurance contracts within the scope of IFRS 17 may be eligible to apply the draft Standard.

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?

We agree with the reduced disclosures proposed for first-time adopters.

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 note that the IFRS 7 disclosures in the draft Standard are very extensive. We suggest that the Board should consider carefully whether all these disclosure requirements are needed. For example, the Board could investigate the need for those IFRS 7 disclosures that are required in the draft Standard but are not required by the UK reduced disclosure framework (FRS 101). We think that FRS 101 works well in practice and gives a significant relief from IFRS 7 disclosures for preparers applying FRS 101.

We agree with all other disclosure requirements proposed, except where noted in our responses to the questions above.

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?

We agree with the structure of the proposed Standard.

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)?

The Board's project *Disclosure Requirements in IFRS Standards – A Pilot Approach* proposes to give prominence to disclosure objectives and limit the number of required disclosures. This approach is very different from the proposal in the draft Standard that eliminates disclosure objectives and provides entities with a clear list of required disclosures. We continue to have significant reservations about the approach proposed in *Disclosure Requirements in IFRS Standards – A Pilot Approach*. We note that, should the Board implement the Pilot Approach, the clear list of disclosure requirements provided in the draft Standard may become a de facto checklist for all IFRS Standards reporters.

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