31 January 2022

Dr Andreas Barckow
Chair, International Accounting Standards Board
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Via online submission: www.ifrs.org

Dear Dr Barckow

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

As the representatives of over 300,000 professional accountants in Australia, New Zealand and around the world, CPA Australia and Chartered Accountants Australia and New Zealand (CA ANZ) thank you for the opportunity to comment on the above Exposure Draft (ED).

CPA Australia and CA ANZ welcome the IASB's proposals to permit the use of reduced disclosures by those subsidiaries without public accountability that choose to or are required to adopt International Financial Reporting Standards (IFRS) for financial reporting. However, we do not believe the Board has provided sufficient justification (Basis for Conclusions paragraph BC16) to restrict the scope of the proposed standard to only apply to eligible subsidiaries without public accountability.

We believe that there is demand amongst IFRS adopters worldwide for a reduced disclosure standard that could be applied by certain Small and Medium Enterprises (SMEs) without public accountability, as evidenced by the creation of domestic standards for this purpose in Australia and New Zealand. Since these standards have successfully used principles consistent to those proposed in this ED, we recommend that the IASB consider expanding the scope of the proposed standard to SMEs without public accountability. Our reasons for this view are set out in the **Attachment** as part of our responses to selected questions raised in the ED.

We acknowledge that our call for the IASB to adopt a broader scope for this standard, if implemented, is likely to necessitate some different decisions on the content of the standard. This is particularly the case on such issues as transition provisions, optional application, interaction with IFRS 1 *First Time Adoption of IFRS* and instances where the proposed disclosures in the ED exceed the base IFRS for SMEs requirements. However, subject to these differences, we note that many of the proposed disclosure reductions are similar to the outcomes that form part of the Tier 2 reduced disclosure regimes in Australia and New Zealand. Therefore, while we broadly support the disclosure reductions from full IFRS being proposed by the ED, we recommend that, in the final standard, where disclosures that are more onerous than those required by IFRS for SMEs are included, clear justification for these additional requirements be identified.

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We note that the IASB is currently undertaking the project "Disclosure requirements in IFRS Standards – A Pilot Approach", which proposes an objectives-based approach to disclosures. Given this ED proposes specific disclosure requirements, we suggest the IASB considers the interaction between this ED and the aforementioned project. Similarly, we suggest that the IASB considers the interaction between this ED and the following current IASB projects involving financial reporting in group situations:

- Business Combinations under Common Control; and
- Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12

If you have any questions about our submission, please contact either Ram Subramanian (CPA Australia) at ram.subramanian@cpaaustralia.com.au or Amir Ghandar (CA ANZ) at amir.ghandar@charteredaccountantsanz.com.

Yours sincerely

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Attachment

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?**

It is our view that the Board should expand the project's objective beyond eligible subsidiaries without public accountability to other SMEs without public accountability.

We recognise that the IASB has developed this ED in response to feedback from stakeholders calling for reduced disclosure requirements for subsidiaries whose parents prepare consolidated financial statements applying IFRS (paragraph BC16(a)) and we commend the Board for responding to this feedback. However, we note there are also calls (e.g., from the financial reporting community in both Australia and New Zealand) for an IFRS-based reduced-disclosure regime that can be adopted for financial reporting by a broader group of SMEs without public accountability where these entities must, or choose to, use IFRS rather than IFRS for SMEs. Such demand reflects the benefits these entities, and the users of their financial statements, obtain from the adoption of consistent internationally recognised best practice recognition and measurement requirements, while acknowledging the need for a set of reduced disclosure requirements more suited to the nature and resource constraints of these entities.

Since 2013 Australian and New Zealand standard setters have responded to this demand within their respective jurisdictions by developing, and subsequently refining, reduced disclosure regimes for entities without public accountability. The interests of international harmonisation would be furthered if a recognised international reduced disclosure standard was available, which could be adopted in these jurisdictions, obviating the need for locally developed standards.

Further reasons to support an expansion of the scope of the project to all SMEs without public accountability are set out in our response to Question 2 below.

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 believe that there is sufficient evidence to suggest that SMEs globally could benefit from a reduced disclosures standard based on the proposals in the ED.

In proposing to restrict the scope of the ED, we note the Board's contention that it has developed the IFRS for SMEs as a financial reporting solution for SMEs, based on both user needs and cost-benefit considerations. We continue to support the availability of the IFRS for SMEs for financial reporting by SMEs, as indicated in our submission in response to the

"Request for Information – Comprehensive Review of the IFRS for SMEs Standard". However, there is also demand for a financial reporting solution that has the same recognition and measurement requirements as IFRS but with reduced disclosures, as proposed in the ED. As noted in the Analysis of the IFRS profiles for the IFRS for SMEs Standard only 86 out of 166 jurisdictions reviewed by the IASB currently require or permit the use of the IFRS for SMEs. More tellingly, in 71 out of the 166 jurisdictions (including 144 jurisdictions that use IFRS for their publicly accountable entities), the IFRS for SMEs is not used or under consideration for use. This suggests that there is quite some diversity in financial reporting requirements in the global SME market, with a significant number of jurisdictions not considering IFRS for SMEs suitable for financial reporting by SMEs in their respective jurisdictions (including Australia and New Zealand).

While we acknowledge that there is a range of reasons for these jurisdictional decisions, the Australian and New Zealand experience suggests that there is a need for an IFRS-based financial reporting solution for entities without public accountability other than the IFRS for SMEs. As noted in our response to Question 1, such a solution recognises the importance for some entities to adopt IFRS based recognition and measurement requirements but with reduced disclosure requirements more suited to the nature and resource constraints of these entities. Therefore, we suggest that the Board investigate, more broadly than subsidiaries, the SME user and preparer demand for a standard based on the ED. The financial reporting experience of Australia and New Zealand should assist in this respect.

In paragraph BC16(d), it is noted that "if preparing financial statements applying IFRS Standards is important to a SME's users, then disclosures required by IFRS Standards are likely to be equally important". As jurisdictions that have applied IFRS for more than two decades, standard-setters in Australia and New Zealand have identified substantial evidence to the contrary, which led both jurisdictions to develop reduced disclosure regimes for entities without "public accountability." Both regimes require application of the full recognition and measurement requirements of IFRS, but only require disclosures that were more appropriately targeted to the needs of all SMEs, rather than to the needs of entities with public accountability for whom full IFRS is designed.

The need for a Tier 2 reduced disclosure regime is now well accepted in both countries, and their effectiveness in applying similar disclosure reduction principles as set out in this ED to a wider group of entities provides evidence to counter the Board's concerns about expanding the scope as identified in paragraphs BC16(e), (f), (g) and (h) of the ED. Similar to the Alternative View expressed by one Board member (paragraph AV6), we have not identified any technical reasons why these proposals cannot be considered suitable for financial reporting by all SMEs without public accountability.

We also note that since the implementation of Australia's Tier 2 reduced disclosure requirements some concerns were expressed that the disclosure reductions being offered were insufficient to make transition to the reduced disclosure regime in its current form worthwhile. In response, the AASB's revised disclosure requirements have aligned even more closely with the disclosure requirements of IFRS for SMEs. We recommend that, in finalising the reduced disclosure requirements, the Board clearly explains and justifies any additional disclosures over and above the IFRS for SMEs disclosure requirements.

The development of an internationally recognised reduced disclosure standard could make ongoing international harmonisation potentially easier for all jurisdictions who have not adopted IFRS for SMEs.

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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 with the proposed approach which, as noted above, is broadly similar to the approach that both the AASB and the NZASB have adopted in developing the mandatory reduced disclosure regimes that apply in Australia and New Zealand. However, as stated in the cover letter, the interaction between this project and the project, "Disclosure requirements in IFRS Standards – A Pilot Approach", should be taken into consideration in developing the proposals further.

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