

EFRAG

Attn: Mr. Jean-Paul Gauzès
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Our ref: RJ-EFRAG 614 B
Direct dial: Tel.: (+31) 20 301 039
Date: Amsterdam, 20 January 2022
Re: Comments on EFRAG draft comment letter in response to ED/2021/7 ‘Subsidiaries without Public Accountability: Disclosures’

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Dear Jean-Paul,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to provide a response to the EFRAG Draft Comment Letter on the Exposure Draft ED/2021/7 ‘Subsidiaries without Public Accountability: Disclosures’ issued by the IASB in July 2021 (the ED). We generally support EFRAG’s comments and have in addition (or want to emphasise) some comments (we refer to this letter and the appendix).

The DASB welcomes the IASB’s initiative to reduce the administrative burden for eligible subsidiaries while maintaining a level of disclosure that compares to other entities without public accountability. We generally support this project with the objective for a subsidiary without public accountability to apply reduced disclosure requirements. However, we have some concerns regarding the proposed approach, the scope of the ED, and regarding the equivalence of financial statements based on this standard to the EU Accounting Directive.

In summary, our main observations, considerations and concerns to the proposals in the ED are as follows:

- It is reasonable that the necessary extent of disclosures varies with facts and circumstances of the entity, including having public accountability or not. If disclosure requirements in full IFRS would be more principle-based, such facts and circumstances would be taken into account. This may imply that reduced disclosures by subsidiaries without public accountability could already be achieved by a principle-based application of the disclosure requirements in full IFRS (we refer to the IASB’s project on disclosure objectives¹). In that case, a separate standard might not be necessary. The differences between the disclosures needed for entities with and without public accountability may be a relevant aspect in the IASB project on Principles of Disclosure.

¹ Exposure Draft ED/2021/3: Disclosure Requirements in IFRS Standards – A Pilot Approach (Proposed amendments to IFRS 13 and IAS 19)

- The proposed standard is based on several aspects that are fundamental by nature, such as the need for the standard, its scope and the approach for setting the disclosure requirements. It might have been better to publish a Discussion Paper first before drafting an Exposure Draft. Such a Discussion Paper may have addressed the following:
 - An assessment of the information needs of users of financial statements of subsidiaries without public accountability, including the information needs of minority shareholders for which the financial statements are the main (or only) source of information;
 - The alignment of the ED with the general objective of the IASB to publish a single set of high quality global standards;
 - As financial statements of subsidiaries without public accountability are often more bound to local (national) requirements than the consolidated financial statements of listed entities, an assessment of interactions at local level (for a selected number of key countries) with the proposed ED may improve widespread acceptance and application of the standard.

The DASB's detailed responses to the questions in the ED and to EFRAG's questions to constituents are provided in Appendix 1. Our comments regarding these questions should not be read without the above observations, considerations and concerns to the proposals in the ED.

Please feel free to contact us if you wish to discuss the contents of this letter.

Yours sincerely,

Gerard van Santen RA
Chairman Dutch Accounting Standards Board

Appendices

Appendix 1 – Responses to the questions of the ED

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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?

DASB's response

We refer to our overall observations, considerations and concerns on the ED, as described in our comment letter above. We support the objective of reducing the administrative burden for eligible subsidiaries. We acknowledge that the information needs of users of financial statements of such subsidiaries differ from users of financial statements of entities with public accountability. However, we refer to our responses on question 4 regarding leaving out disclosure objectives, and question 8 regarding the equivalence to financial statements based on the EU Accounting Directive.

Question to Constituents:

This (draft) Standard would allow subsidiaries without public accountability to make a transition to IFRSs adopting a reduced set of disclosure. On the one hand, it has been observed that such entities would however have to continue to produce a detailed set of disclosure to prepare their reporting package for the parent company that produces full IFRSs. But on the other hand, the level of materiality at group level will be different from the materiality at subsidiary level. Do you expect any incremental benefits for the European companies in your jurisdiction? Please detail.

DASB's response

We believe that although subsidiaries may have to produce a detailed set of disclosure to prepare their reporting package for the parent company that produces full IFRSs, significant cost savings may be achieved. Our observation is that currently only few subsidiaries opt (when this option is available) to publish full IFRS statements as a result of the significant disclosure requirements of full IFRSs.

Question 2

Paragraphs 6–8 of the draft Standard set out the proposed scope. Paragraphs BC12–BC22 of the Basis for Conclusions explain the IASB’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?

DASB’s response

We considered the alternative view where any entity without public accountability could opt for this standard. We acknowledge that this may result in more entities applying this standard, resulting in a less widespread use of full IFRS in practice. We do not have sufficient insight in the impact of extending the scope. We suggest to consider the advantages and disadvantages of a broader scope.

We emphasise that differences in scope may affect the necessary level of disclosures. We refer to the principle-based approach as proposed in the IASB project on Principles of Disclosure.

We do not share EFRAG’s concern regarding the scope requirement based on the facts and circumstances at the end of the reporting period. We believe that an entity that ceases to be a subsidiary before the end of the reporting period should not be eligible for the standard.

Moreover, it is not uncommon that the fact and circumstances at the (exact) end of the reporting period are decisive for exemptions to be available.

Question to Constituents

Considering the advantages and disadvantages identified above and the EU accounting legislation, do you prefer a different scope? If so, please specify your preference.

DASB’s response

We refer to our response above.

Question to Constituents

Do you foresee any incompatibilities between the IASB’s proposals included in the ED (e.g., use of the term ‘public accountability’) and EU accounting legislation, such as Regulation (EC) No 1606/2002 or the Directive 2013/34/EU (e.g., use of the term ‘Public Interest Entities’)?

DASB’s response:

We notice that when companies within the European Union refer to the financial statements of a consolidating parent company as required to be eligible for an exemption to prepare consolidated financial statements, legislation requires that the financial statements of the parent must be in, or

translated into the language of the member state, or French, German, or English. Such requirement ensures that users of financial statements of subsidiaries opting for this exemption have access to consolidated financial statements in a common language. IFRS does not have any requirements on the language of the financial statements. However, as the users of financial statements of subsidiaries without public accountability may be more locally oriented, such a requirement on language may be relevant, especially when the subsidiary is part of a foreign group.

We believe that the term ‘public accountability’ sufficiently coincides with ‘public interest entities’, so we do not expect significant interpretation problems in practice.

We believe that as the criterion of public accountability “its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets)” is already part of full IFRS, this is a well-known concept without significant problems in practice.

On the other hand, the criterion “it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this criterion)” is derived from IFRS for SMEs (1.3-4). As IFRS for SMEs is not often used within the European Union, applying this criterion may be more difficult in practice.

Question 3

Paragraphs BC23–BC39 of the Basis for Conclusions explain the IASB’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?

DASB’s response:

We refer to our response to questions 1, 4, and 8.

Question 4

Paragraphs BC40–BC52 of the Basis for Conclusions explain the IASB’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?

DASB’s response:

We have some hesitations regarding leaving out disclosure objectives. Limiting the disclosures to a limitative set of requirements may impair the true and fair view when additional disclosures are needed given specific facts and circumstances of the reporting entity.

Moreover, we observe an inconsistency with the IASB’s project on disclosure objectives. Such a principle-based project conflicts with a more checklist-based approach as proposed in this exposure draft. We foresee that if IFRS standards are redrafted based on a more principle-based approach, this standard may divert more from full IFRS than intended.

This problem may be solved by maintaining the disclosure objectives in this standard while explaining how given the specific type of users of financial statements of entities without public accountability, reduced disclosures may still meet the information needs of those users.

Notably, we observe that the exposure draft still includes some objective-based disclosure requirements, e.g. paragraph 44 regarding IFRS 7 Financial Instruments (“An entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance.”) and paragraph 120 regarding IAS 1 Presentation of Financial Statements (“The notes shall provide information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them.”).

Moreover, we observe that some paragraphs in full IFRS that give additional guidance on how to apply disclosure requirements are not included in the exposure draft, e.g., IAS 2.37-39. Some of those paragraphs may also be helpful in the proposed standard.

Question to Constituents

Would the information required by paragraph 130 of the ED (reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities) differ from the information reported by the parent (as required by paragraphs 44A–44E of IAS 7? If so, in what respect?

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 observe that although the different wording may result in divergent presentation, in practice this reconciliation is presented in such a manner that it complies both to IAS 7.44A-E and to paragraph 130 of the ED.

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 IASB’s reasons for this proposal.

Do you agree with this proposal? Why or why not? If not, what approach would you suggest and why?

DASB’s response:

We agree with the proposals.

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 IASB’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.

DASB's response:

We see no significant benefits for reduced disclosure requirements relating to IFRS 17.

Question to Constituents

In your jurisdiction, are there entities that issue insurance contracts within the scope of IFRS 17 and are eligible to apply the IASB's proposals? If so, please provide details on which entities would be in the scope, the nature of insurance activities they undertake and how common they are. What simplifications to disclosure requirements of IFRS 17 would you propose for those entities?

As far as the DASB is aware of, there are only few (if any) entities that issue insurance contracts within the scope of IFRS 17 and are eligible to apply the IASB's proposals.

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 IASB'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?

DASB's response:

We agree with the proposals.

We believe that it is already sufficiently clear that the use of reduced-disclosure IFRS is not considered a change in an accounting policy in accordance with IAS 8 as it is related to the use of an optional IFRS Standard. Therefore, we believe that such a clarification as recommended by EFRAG is not necessary.

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?

DASB's response:

We generally agree with the proposals. From the perspective of acceptance of this standard in the European Union, we recommend to evaluate whether the reduced disclosures are still at least equivalent to the disclosure requirements of the Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements. This may improve widespread acceptance and application of the standard.

Furthermore, we suggest to emphasise in the Standard that a subsidiary should include additional disclosures if this is necessary for providing a true and fair view, as required under IAS 1.15 (we refer also to question 4).

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?

DASB's response:

We agree with the proposals. However, we would like to stress that this standard should be updated as soon as disclosure requirements in other standards are added or amended, instead of a delayed update as applied to IFRS for SMEs.

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)?

DASB's response:

We recommend to consider the information needs of non-controlling shareholders of subsidiaries without public accountability. Such shareholder may have less access to other sources for additional information than the controlling shareholder or shareholders in the typical environment of SMEs.

Moreover, we observe that the standard includes some references to full IFRS, e.g., regarding IAS 20 on page 55 of the Exposure Draft: “In addition to the disclosures required by this [draft] Standard when an entity has applied IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, the following paragraphs in IAS 20 use the word ‘disclose’ in requirements that remain applicable: paragraphs 21–22, 28 and 31.”

Such references make the standard less accessible as a stand-alone standard, especially when the standard intends to present a complete set of disclosure requirements.