RSM International Limited

50 Cannon Street
London
EC4N 6JJ
United Kingdom
T +44 207 601 1080
rsm.global

28 January 2022

Mr Andreas Barckow
Chairman
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD

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

Dear Mr Barckow,

On behalf of RSM International Limited, a worldwide network of independent audit, tax and consulting firms, we are pleased to comment on the IASB's Exposure Draft ED/2021/7 – Subsidiaries without Public Accountability Disclosures ('the ED').

We welcome the IASB's Exposure Draft with the aim reducing disclosures for eligible subsidiary entities, eliminating the need for eligible subsidiaries to maintain additional accounting records for reporting purposes. We consider that such guidance would be helpful and would result in reduced cost in the preparation and audit of financial statements prepared in accordance with the draft Standard

However, we believe that the following points need to be reconsidered by the Board.

1) Scope including intermediate entities preparing consolidated financial statements

We welcome the IASB's proposal to introduce the draft Standard to reduce disclosures for eligible subsidiaries. However, we consider that the draft Standard should not be applied in consolidated financial statements of either ultimate or immediate parent entities. We do believe that there would be benefits of allowing the standard to be applied to the individual financial statements of ultimate or intermediate parent entities, providing the results of these entities are included in the consolidated financial statements.

2) Presentation of a statement of financial position on date of transition

We do not agree with the proposal to present an opening statement of financial position at the date of transition to IFRS when applying the draft Standard. We do not believe that this would provide relevant or useful information to the users of the financial statements in the context of a reduced disclosure framework and would result in additional cost for entities applying the draft Standard.

3) Structure of the draft Standard

We do not believe that there is sufficient clarity in Appendix A of the draft Standard which could result in disparity and non-compliance in financial statement disclosures of entities electing to apply the draft Standard. We believe that the draft Standard should explicitly include all the required disclosures, in addition to the disclosures in IFRS Standards that do not apply to ensure consistent application.

Our comments and detailed responses to the questions set out in the Invitation to Comment section of the ED are detailed hereafter.

We would be pleased to respond to any questions the Board of its staff may have about any of our response. If you have any questions or comments please do not hesitate to contact Gary Stevenson (+852 2583 1220) or me (+44 (0)207 601 1842).

Yours faithfully,

Marion Hannon

Global Leader, Quality & Risk

RSM International

Appendix 1

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.

(a) 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 allowing eligible subsidiaries to apply reduced disclosure requirements whilst following the recognition, measurement and presentation requirements in IFRS Standards. The reduced disclosures will provide relevant and useful information for the users of such financial statements for their purposes.

Additionally, we are of the view that where subsidiaries can apply a reduced disclosure framework rather than applying IFRS for SMEs it will assist them by reducing the GAAP differences arising upon reporting to a parent entity for the purposes of the consolidation. This will lead to cost savings and synergies in both the preparation and, where relevant, audit of such financial statements.

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 Boards reasons for that proposal.

(a) Do you agree with the proposed scope? Why or why not? If not, what alternative approach would you suggest and why?

Overall, we agree with the proposed scope of the draft Standard. In particular, we are of the view that the draft Standard should only apply to subsidiaries that do not have public accountability and are included in a publicly available set of consolidated financial statements. The disclosures within IFRS Standards are relevant for entities with public accountability and the elimination of disclosures in IFRS Standards for these entities would be detrimental to the users of financial statements of subsidiaries that have public accountability.

Additionally, we are of the view that the draft Standard should not be extended to all SMEs without public accountability. This would result in a divergence from the IFRS for SME's Standard with a subsequent decrease in comparability in the financial statements for entities not applying IFRS Standards.

We do not believe that the draft Standard should be applied in consolidated financial statements of intermediate parent entities. Under IFRS 10 Consolidated Financial Statements a parent entity is required to present consolidated financial statements unless certain conditions are met. However, an intermediate parent entity may still choose to present consolidated financial statements and many entities make this election as it is a requirement of a regulator or a significant creditor. We believe that the draft Standard should not be applied in consolidated financial statements of intermediate parent entities as the reduced disclosure would not meet the needs and requirements of the users of intermediate parent consolidated financial statements.

As an additionally point, whilst we are of the view that the draft Standard should not be applied in consolidated financial statements (either of ultimate or intermediate parents), the draft Standard should be allowed to be applied to individual financial statements of parent companies so long as those financial statements are included in the consolidation.

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.

(a) Do you agree with that approach? Why or why not? If not, what alternative approach would you suggest and why?

We do not agree with the approach used to developing the proposed disclosure requirements in the draft Standard. We believe that a more appropriate approach would be to base the disclosure requirements of the draft Standard on IFRS Standards, tailored for the information and disclosures that would provide useful and relevant information to users of financial statements of eligible subsidiaries. This approach would ensure that the draft Standard is aligned to IFRS Standards, rather than aligning the draft Standard to the IFRS for SME's Standard which does not follow the same recognition, measurement and presentation requirements as IFRS Standards.

Question 4 – Exceptions to the approach

Paragraphs BC40-BC52 of the Basis for Conclusions explain the boards 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 for financing activities (paragraph BC46);**
- **exploration for and evaluation of mineral resources (paragraphs BC47-BC49);**
- **defined benefit obligations (paragraph BC50):**
- **improvement 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 that approach? Why or why not? If not, what alternative approach would you suggest 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?

Overall, we agree with the approach taken to developing the exceptions and that the list of the exceptions are largely the areas which would be beneficial to companies applying the draft Standard,

The only area where we do not agree with the proposed reduced disclosures in the draft Standard is for defined benefit pension obligations. We believe that it would be beneficial to financial statement users for the full disclosure requirements in paragraphs 135 to 150 of IAS 19 Employee benefits to be included in the draft Standard to the extent that they are not directly repeated in the consolidated financial statements. The information required for such disclosures would be required for the ultimate or immediate parent entity consolidated accounts so would not cause increased cost for entities applying the draft Standard.

We agree with the proposed disclosure in paragraph 130 of the draft Standard of a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. We do not believe that the information an eligible subsidiary would report in its individual financial statements applying paragraph 30 of the draft Standard would differ from the information provided to its parent to satisfy the requirements of paragraphs 44A to 44E of IAS 7 Statement of Cash Flows (we note the question 4(b)(i)) refers to IFRS 7, rather than IAS 7, which we have assumed is a typographical error).

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 proposal. We believe that these disclosures would provide relevant and useful information to users of financial statements applying the draft Standard.

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.

We agree with the Board's proposals that the current draft Standard should not reduce the disclosure requirements of IFRS 17 Insurance contracts.

We believe that the disclosure requirements of IFRS 17 Insurance Contracts, which introduces a new model for accounting for insurance contracts, are initially required for entities within the scope of the draft Standard to explain the impact of IFRS 17 Insurance Contracts on their financial statements.

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 disagree with the Board's proposal in paragraph 25 of the draft Standard to comply with paragraphs 6 and 21 of IFRS 1 First-time Adoption of International Financial Reporting Standards to present an opening statement of financial position at the date of transition to IFRS when applying the draft Standard. We do not believe that such information would be relevant or useful to the users of financial statements of entities eligible to apply the draft Standard. In addition, compliance with paragraph 25 of the draft Standard would result in additional cost for entities electing to apply the draft Standard.

We agree with the remaining proposals.

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?

In addition to our answers to Questions 4 to 7, we disagree with the following proposed disclosure requirements for an entity applying the draft Standard:

We disagree with the requirements in paragraphs 47 and 48 of the draft Standard in respect of reclassification of financial assets. We believe that the disclosure requirement in paragraph 43 of the draft Standard will provide sufficient and relevant information for the financial statement users of entities applying the draft Standard. In addition, there is no equivalent disclosure requirement in the IFRS for SME's Standard.

We disagree with the requirement in paragraph 55 of the draft Standard in relation to explanation of risk management strategy. We believe that the disclosure requirements in paragraph 56 to 58 will be sufficient for financial statement users of relevant entities applying the draft Standard will provide sufficient information to understand the hedging strategy and impact of that strategy on the financial position and financial performance.

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 do not agree with the structure of the draft Standard. We do not believe that there is sufficient clarity in Appendix A of the draft Standard in respect of which other requirements relating to disclosure requirements in IFRS Standards would apply to entities adopting the draft Standard. We believe that this could result in disparity in disclosures in financial statements and potential non-compliance with the draft Standard.

We believe that the draft Standard should explicitly include all the required disclosures for compliance with the draft Standard, as well as the disclosures in IFRS Standards that do not apply. The current structure of the draft Standard could result in increased cost for preparers of financial statements adopting the draft Standard due to a requirement to cross refer to individual IFRS Standards to ensure full compliance with the draft Standard.

We believe that paragraphs 22-213 of the draft Standard should be structured by each IFRS Standard as follows:

- a complete list of disclosures in relevant IFRS Standards that do not apply to entities adopting the draft Standard (Appendix A in the current draft Standard);
- a complete list of the disclosures in the relevant IFRS Standard that do apply, which are currently included as footnotes in the draft Standard; and
- a complete list of the additional disclosures included in the draft Standard.

Question 10 – Other Comments

We have no other comments on the ED.

END OF DOCUMENT