31 January 2022

International Accounting Standards Board
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Canary Wharf
London E14 4HD
United Kingdom
Email: commentletters@ifrs.org

Dear Sir/ Madam

SAICA SUBMISSION ON ED/2021/7 – *SUBSIDIARIES WITHOUT PUBLIC ACCOUNTABILITY: DISCLOSURES*

In response to your request for comments on ED/2021/7 – *Subsidiaries Without Public Accountability: Disclosures,* attached is the comment letter prepared by the South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of SAICA's Accounting Practices Committee (APC), which comprises members from reporting organisations, regulators, auditors, IFRS specialists, investment analysts and academics.

We thank you for the opportunity to provide comments on this Exposure Draft.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Prof Ahmed Mohammadali-Haji	**Bongeka Nodada**
Chairperson: APC	**Project Director: Financial Reporting Standards**

GENERAL COMMENTS

We support the objective of the draft Standard and the cost savings and simplifications that it intends to bring to annual financial statements of entities permitted to apply the draft Standard.

However, the proposed scope in the Exposure Draft is unclear and we suggest that the International Accounting Standards Board (IASB or Board) conducts more work on ensuring that the scope of the draft Standard is adequate and provides the necessary relief. We recommend that the proposed scope and objective of the draft Standard should be broader and be extended to include other types of SMEs such as joint ventures, other entities without public accountability and subsidiaries of entities that produce consolidated annual financial statements regardless of whether they are available for public use or not.

Some of our respondents noted that the Board used the IFRS for SMEs standard to develop the disclosure requirements of the draft Standard. However, the IFRS for SMEs standard has not been updated since 2015 and the objective of the draft Standard and the IFRS for SMEs standard are different. Therefore, these respondents believe that the Board should not have developed the disclosure requirements of the draft Standard based on the disclosure requirements in the IFRS for SMEs Standard.

We recommend that the Board provides a clear framework on how it has decided on what disclosures to keep in this draft Standard and which disclosures would be excluded.

We also believe that referencing disclosures to other standards would be onerous to entities.

We are also uncertain on how this project interacts with the *Disclosure Requirements in IFRS Standards—A Pilot Approach*: Proposed amendments to IFRS 13 and IAS 19 project.

SPECIFIC COMMENTS

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 broadly agree with the objective of the draft Standard.

Our members agree that the IASB's proposals will simplify and reduce the cost of financial reporting of eligible subsidiaries.

However, we believe that the objective of the draft Standard should be expanded to include other types of SMEs (other entities without public accountability), such as joint ventures, and not only focus on providing disclosure requirements to subsidiaries whose parent prepares consolidated financial statements applying IFRS Standards. Therefore, we recommend that the Board should conduct further research and groundwork to determine further reduced disclosure requirements that do not use IFRS for SMEs standard as a reference point, as the reduction in disclosure objectives envisaged in the draft Standard is considered to provide incremental benefit to preparers given that subsidiaries are already providing the information to their parent in the form of consolidation reporting packs.

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 disagree with the proposed scope.

The proposed scope is unclear. We recommend that the Board conducts more work on ensuring that the scope of the draft Standard is adequate and provides the necessary relief. We also believe that the proposed scope should be broader and be extended to include other types of SMEs such as joint ventures, other entities without public accountability and subsidiaries of entities that produce consolidated annual financial statements, regardless of whether those financial statements are available for public use or not.

We also believe that the draft Standard should be made available to other entities without public accountability because it would enable more adoption of IFRS Standards with less onerous disclosure requirements. In addition, it will help entities that were previously subsidiaries and are subsequently disposed of to continue using the Standard once they are no longer a subsidiary.

Paragraph BC 16(d) states that "an entity electing to apply IFRS Standards in preparing its financial statements is usually responding to users' needs". We believe that the statement is not accurate as, for many such entities, preparation of financial statements is probably in response to company law that mandates the entity to apply IFRS standards in their individual financial statements.

The Board should clearly define the meaning of "available for public use", for example:

- In jurisdictions such as the United Kingdom and the Netherlands, regulatory requirements to file the annual financial statements constitutes "available for public use", as members of the public typically can freely access these financial statements from the regulators.
- In South Africa, annual financial statements of certain companies are filed with the regulator (Companies and Intellectual Property Commission) and they are used by financial institutions (i.e., banks) or tax authority (i.e., the South African Revenue Service). However, members of the public do not have free access to these financial statements, or access to these financial statements may be granted to members of the public at the discretion of the regulator or institution. It is therefore argued by some stakeholders that such financial statements are not considered to be available for public use. There are also categories of companies that are not required to file their financial statements with the regulator at all.

We therefore recommend that the Board clarifies whether the scope of the intended relief of the draft Standard is applicable only to annual financial statements of subsidiaries of companies who have public accountability and whose financial statements are available for public use, and whether subsidiaries of parents who do not file financial statements with the regulator, or where such a regulatory filing does not constitute "available for public use" would qualify for this relief.

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 disagree with the proposed approach.

The Board has used the IFRS for SMEs standard to develop the disclosure requirements of the draft Standard. However, the IFRS for SMEs standard has not been updated since 2015 and the objectives and proposed userbases of the draft Standard and the IFRS for SMEs standard are different. Therefore, we believe that the Board should not have developed the disclosure requirements of the draft Standard based on the disclosure requirements in the IFRS for SMEs Standard, but rather developed the disclosure requirements of the draft Standard with reference to the information needs of the target userbase.

We believe that the Board should first understand the userbase of the financial statements that are within the scope of the draft Standard and consult other reduced disclosure frameworks such as Dutch GAAP or UK FRS 101 that have similar objectives in developing the proposed disclosure requirements.

Furthermore, we believe that paragraph BC34 is too vague and broad. We believe it is necessary to create a clear framework on how the Board has decided which disclosures to keep in the draft Standard and which disclosures should be excluded. It is unclear to us how the broad principles in paragraph BC 34 correlate to the specific disclosures required by the draft 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?

Participants had mixed views on this matter. Some of the participants agree with the exceptions. However, some do not agree with the exceptions. These participants' view is that it is difficult to comment on whether the exceptions to the approach are appropriate because the proposed scope is not clear and there is no clear framework on how the proposed disclosure requirements were selected. For example, if an entity does not have public accountability, it is unclear why extensive IFRS 2 – *Share-based Payment* disclosures would be required, as is currently the case with the proposed disclosure requirements for IFRS 2 in the draft Standard.

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?*

No, we do not believe the information an eligible subsidiary report in its financial statements applying paragraph 130 of the draft Standard would differ from the information it reports to its parent.

However, it is difficult to understand the usefulness of this disclosure as there is no clear identification of the users of this draft Standard.

(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?*

Yes, in our experience, 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.

However, some of our participants believe that this question is not relevant to the Exposure Draft and the context of the question therein is unclear.

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?

Participants had mixed views on this matter. Some of our participants are in support of the proposal. However, others are not supportive thereof. These latter participants recommend that the Board should address disclosure requirements for transition to any new IFRS Standards on a case by case basis and that the Board should clarify the processes that will be used when amending this standard to incorporate disclosure requirements for a revised or new IFRS standard, including transition to such a new 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.

There are instances where the accounting indicates that entities would be within the scope of IFRS 17,- *Insurance Contracts* and should account for a contract as an insurance contract, for example, cell captives, even though the entity is not a registered insurer. Therefore, while we note the arguments indicated in paragraph BC 64, we believe that some degree of reduced disclosure requirements should be considered in this Standard.

(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.

Refer to the response above.

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?

We agree that the Board should include reduced disclosure requirements for IFRS 1 - *First-time Adoption of International Financial Reporting Standards* 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 proposals in paragraphs 12–14 of the draft Standard.

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?

We disagree with the proposals.

We believe that it would be easier to include all disclosure requirements that are applicable to entities without public accountability in the draft Standard instead of referencing disclosures from other Standards which are not applicable. We also believe that it would be onerous for entities to reference to other Standards in determining the information to be disclosed in their financial statements.

(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*?

We do not have any specific recommendations for further reductions in the disclosure requirements. However, in line with our earlier comment regarding the userbase for the proposed draft Standard, we believe that a more specific analysis of the target audience for qualifying entities could result in further reductions in the disclosure requirements.

(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 do not have additional disclosure recommendations.

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?

Participants had mixed views on this matter. Some of our participants are in support of the structure of the draft Standard. However, some are not in support of the proposal. These latter participants suggest that the Board should include/incorporate the disclosures that are applicable to subsidiaries without public accountability into the actual IFRS Standards on a Standard-by-Standard basis. They also believe that the cross-referencing of the disclosure requirements to other Standards would result in an additional burden to entities.

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)?

We are uncertain on how this project interacts with the *Disclosure Requirements in IFRS Standards—A Pilot Approach*: Proposed amendments to IFRS 13 and IAS 19 project and note that developments in that project may impact the approach used to develop the disclosure requirements of this draft Standard.