Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Our Ref.: C/FRSC

Sent electronically through the IASB Website (www.ifrs.org)

4 January 2022

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

Dear Andreas,

IASB Exposure Draft ED/2021/07
Subsidiaries without Public Accountability: Disclosures

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the only body authorised by law to set and promulgate standards relating to financial reporting, auditing, and ethics for professional accountants, in Hong Kong. We are grateful for the opportunity to provide you with our comments on this Exposure Draft (ED).

We welcome the proposed new IFRS Standard and consider that it would reduce costs for eligible subsidiaries to prepare their financial statements while maintaining the usefulness of financial statements for users.

Nevertheless, we have several comments and recommendations on the ED. Firstly, regarding the scope of the draft Standard, we understand that the draft Standard is intended to address the cost-benefit considerations for a subset of small and medium-sized entities (SMEs) – subsidiaries without public accountability. However, we consider that extending the scope of the draft Standard to all SMEs without public accountability would enable more SMEs to benefit from the reduced disclosure requirements and would set a better direction for the evolution of the *IFRS for SMEs* Standard. In addition, we do not see any reason for restricting the scope of the draft Standard to subsidiaries when the draft Standard is developed based on the disclosure requirements in the *IFRS for SMEs* Standard, which was designed for SMEs regardless of whether they are a subsidiary. Accordingly, we recommend that the scope of the draft Standard be extended to cover all SMEs without public accountability, i.e. to remove the criteria in paragraph 6(a) and (c) of the draft Standard.

Secondly, our respondents noted that the IASB is currently undertaking two other projects, namely *the Second Comprehensive Review of the IFRS for SMEs Standard* and the *Disclosure Requirements in IFRS Standards—A Pilot Approach*. These two projects either has similar scope (entities without public accountability) or objective (address disclosure problems) as the draft Standard. They questioned how these two projects interact with the draft Standard, in particular, in respect of the approach to developing the draft Standard going forward. Hence, we suggest that the IASB clarify this matter.

Lastly, to help stakeholders better understand the effects of the draft Standard and distinguish between different sets of accounting standards, we recommend that the IASB provide educational materials, such as a comparison of the disclosure requirements between IFRS Standards, *IFRS for SMEs* Standard and the draft Standard, and illustrative financial statements, once the draft Standard is finalised.

Our detailed comments are provided in the Appendices.

If you have any questions regarding the matters raised in this letter, please contact me (ceciliakwei@hkicpa.org.hk) or Anthony Wong (anthonylwwong@hkicpa.org.hk), Associate Director of the Standard Setting Department.

Sincerely,

Cecilia Kwei
Director, Standard Setting Department

Work undertaken by HKICPA in forming its views

The HKICPA:

(i) issued an Invitation to Comment on ED/2021/07 on 27 July 2021 to its members and other stakeholders;
(ii) sought input from its Disclosure Initiative Advisory Panel and Small and Medium Practices Committee and its Working Group on Technical Issues, which are mainly comprised of technical and industry experts from large as well as small and medium accounting firms (collectively, Practitioners);
(iii) held a roundtable discussion for local stakeholders, including preparers, practitioners and investors on 4 November 2021; and
(iv) developed its views through its Financial Reporting Standards Committee, having reflected on its stakeholder views. The Committee comprises academics, preparer representatives from various industry sectors, regulators, as well as technical and industry experts from small, medium and large accounting firms.

Detailed comments on ED/2021/07

Objective (refer to ED Question 1)

1. The HKICPA and its respondents agree with the objective of the draft Standard. Overall, we agree that the draft Standard would reduce costs for eligible subsidiaries to prepare their financial statements in the following ways:
   (a) Although eligible subsidiaries currently applying IFRS Standards would still be required to prepare IFRS disclosures for reporting to their parents and first-time implementation cost would be incurred, the draft Standard requires fewer disclosures than IFRS Standards, which can save costs in preparing and auditing the disclosures in the subsidiaries' financial statements on an ongoing basis; and
   (b) The draft Standard helps remove the need for eligible subsidiaries who are currently applying a local GAAP to maintain two sets of accounting records – one for reporting to the parent and one for the subsidiary's own financial statements. It is also useful for entities that intend to transition to IFRS Standards, e.g. those that are recently acquired by a listed entity or are planning to list in the near future.

2. However, some respondents expressed the concerns that with the introduction of the draft Standard, stakeholders may not be able to distinguish between IFRS Standards, *IFRS for SMEs* Standard and the draft Standard. They noted that both the draft Standard and the *IFRS for SMEs* Standard target entities without public accountability, and that the IASB is deliberating the feedback on the *Second Comprehensive Review of the IFRS for SMEs Standard*. In particular, the IASB is considering whether, and to what extent, the *IFRS for SMEs* Standard should align with the requirements in IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*. The draft standard and *IFRS for SMEs* Standard would become quite similar if the requirements in *IFRS for SMEs* Standard would align with those in the IFRS Standards.

   In light of our respondents' concerns above, we recommend that the IASB:
   (a) clarify how this project interacts with the *Second Comprehensive Review of the IFRS for SMEs Standard*; and
   (b) provide educational materials to help stakeholders understand the effects of the draft Standard and the differences between different sets of accounting standards once the draft Standard is finalised, given that most SMEs have limited resources. It would be helpful if these educational materials include a comparison of the disclosure requirements between IFRS Standards, *IFRS for SMEs* Standard and the draft Standard, as well as illustrative financial statements (similar to the ones for *IFRS for SMEs* Standard).

Scope (refer to ED Question 2)

Public accountability

3. The HKICPA agrees that only entities that do not have public accountability should be allowed to apply the draft Standard.

4. However, we note that certain non-insurance companies may issue insurance contracts within the scope of IFRS 17 *Insurance Contracts*, e.g. certain product warranties issued by corporates may be under the scope of IFRS 17. We question whether these entities would be seen as holding assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses in accordance with paragraph 7(b) of the draft Standard and therefore are not eligible for the draft Standard. Accordingly, we suggest that the IASB clarify this and consider providing guidance on the meaning of 'a broad group of outsiders' under paragraph 7(b) of the draft Standard.

Extend the scope

5. While the HKICPA notes that the project is intended to address the cost-benefit considerations for a subset of small and medium-sized entities (SMEs) – subsidiaries without public accountability, we consider that the scope of the draft Standard could be extended to cover **all** SMEs without public accountability, i.e. to remove the criteria in paragraph 6(a) and (c) of the draft Standard for the following reasons:

   (a) In developing the draft Standard, the IASB has either retained the disclosure requirements in the *IFRS for SMEs* Standard or used the principles it used when developing them. *IFRS for SMEs* Standard was designed for SMEs regardless of whether they are a subsidiary. We noted that *IFRS for SMEs* Standard has been applied for more than 10 years and no significant concerns have been observed regarding its disclosure requirements. Therefore, we do not think that the scope of the draft Standard should be restricted to subsidiaries.

   (b) The ED states that the reason for limiting eligibility to subsidiaries with parents issuing publicly available financial information is that information exempted from being disclosed at the subsidiary level can be identified in the consolidated financial statements of its intermediate parent or ultimate parent (paragraph 6(c) of the draft standard).

   However, information concerning a particular subsidiary will be disclosed in the parent's consolidated financial statements only if that information is material at the group level. Furthermore, that information is often disclosed on an aggregate basis without its being attributed to any specific subsidiary. Hence, the requirement in paragraph 6(c) may not guarantee that information about the subsidiary could be identified in the parent's consolidated financial statements.

   Since the proposed eligibility criteria does not guarantee disclosure of the eligible subsidiary's information to the public, we doubt the value of retaining such a restriction.

   (c) In Hong Kong, it is common that the financial statements users are the sole shareholder or are family members. For example,
      (i) Some private and sizable groups that are owned by families (e.g. family office) do not prefer making their financial statements publicly available due to confidential reasons. However, users of these financial statements are mainly family members.
      (ii) Private groups often have an ultimate holding or intermediate parent that is incorporated in the British Virgin Islands, Cayman Islands, Bermuda or other jurisdictions where there is no statutory requirement to prepare financial statements.

(iii) Many private companies do not have any external borrowings and are wholly-owned by an individual. The only user of its financial statements would be its sole shareholder.

We consider that using the draft Standard in these cases would still provide disclosures that meet users' information needs. In addition, extending the scope to cover these cases would enhance the usefulness of the draft standard.

(d) We share the same view expressed by Ms Françoise Flores, former IASB member, in paragraphs AV4 and AV5 of the ED that widening the scope of the draft Standard to include all SMEs would help to set a better direction for the evolution of the *IFRS for SMEs* Standard. In particular, the IASB could affirm the objective of keeping the *IFRS for SMEs* Standard simple, easy to apply and a stable platform for SMEs. This would also facilitate stakeholders' understanding of the differences of the scope and requirements between different sets of standards. If the IASB were to extend the scope of the draft Standard to all SMEs, the differences between the standards would be as follows:

<table>
<tr><th></th><th>IFRS Standards</th><th>The Draft Standard</th><th>IFRS for SMEs Standard</th></tr>
<tr><td>Scope</td><td>All companies</td><td colspan="2">Companies without public accountability</td></tr>
<tr><td>Recognition and measurement requirements</td><td colspan="2">Same</td><td>Simplified, easy to apply</td></tr>
<tr><td>Disclosures</td><td>Comprehensive</td><td colspan="2">Simplified, less disclosures</td></tr>
</table>

Available for public use

6. The draft Standard uses the concept of 'available for public use' (as in IFRS 10 *Consolidated Financial Statements*) when defining its scope. However, IFRS 10 and the draft Standard do not provide any guidance on what the term means, for example, whether simply making the consolidated financial statements of the parent available upon request will meet the requirement or whether the parent must be a listed entity. While we understand that the term has been used for a long time and practice has evolved, we consider that the proposals in the ED are likely to put pressure on the definition of 'available for public use'. If the IASB were not to extend the scope of the draft Standard to all SMEs and retain the criteria in paragraph 6(c), we suggest that the IASB consider providing clear guidance on this matter because the meaning of the term will affect the scope of the draft Standard.

Approach to developing the proposed disclosure requirements (refer to ED Questions 3 and 4)

7. Overall, the HKICPA does not disagree with the 'bottom-up' approach to developing the draft Standard as proposed in the ED. However, we observe that most eligible subsidiaries may already be using full IFRS for reporting to their parents. Therefore, a 'top-down' approach, i.e. using IFRS Standards as the starting point and providing disclosure exemptions under each IFRS Standard, would be more preferable as it helps eligible subsidiaries understand and apply the draft Standard more effectively and efficiently.

8. We note that the objective of this project is similar to that of another project *Disclosure Requirements in IFRS Standards—A Pilot Approach* (the Pilot Approach project) that the IASB is currently undertaking. Both projects aim to address disclosure problems. Accordingly, we suggest that the IASB clarify the interaction between the two projects in respect of the approach to developing the proposed disclosure requirements, in particular, whether the approach of setting overall and specific disclosure objectives would be adopted in the draft Standard, and whether 'non-mandatory' disclosure requirements as proposed in the Pilot Approach project would be excluded from this draft Standard going forward.

9. In response to Question 4(b)(i) of the ED, we appreciate the IASB's effort in simplifying paragraphs 44A-44E of IAS 7 *Statement of Cash Flows* when drafting paragraph 130 of the draft Standard. We note that IAS 7.44C also applies to changes in financial assets if changes from those assets were, or will be, included in cash flows from financing activities. However, such disclosures are not required under the draft Standard. We consider that such information would still be separately prepared for the parent's consolidated financial statements. In response to Question 4(b)(ii) of the ED, some respondents observed that entities applying IFRS Standards usually include a reconciliation between the opening and closing balances for liabilities arising from financing activities to satisfy paragraphs 44A-44E of IAS 7. Hence, we suggest that the IASB consider including the requirement in IAS 7.44C on changes in financial assets in paragraph 130 of the draft Standard to facilitate the preparation of the parent's consolidated financial statements.

Disclosure requirements (refer to ED Questions 5 to 8)

10. The HKICPA has included several suggestions to improve the disclosure requirements in the draft Standard in Appendix 2. In general, we consider that disclosures about liquidity and measurement uncertainty should be required in the draft Standard in accordance with its drafting principles (paragraph BC34 of the ED), and these disclosures would be useful to users. We note that paragraph 16 of the ED do not require entities to provide a disclosure required by the draft Standard if the information resulting from that disclosure is not material. Hence, we expect that the extent of disclosures would depend on facts and circumstances of each entity, for example, the financial risk management disclosure requirements in IFRS 7 *Financial Instruments: Disclosures* may not be important for a dormant company or company with minimal operation. On the other hand, if a subsidiary has financial instruments with significant carrying amounts, such disclosure requirements may provide useful information to users.

11. We do not have any comments on the proposed disclosure requirements about transition to other IFRS Standards and the interaction with IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

12. We agree with the proposal and the rationale as stated in paragraph BC64 of the ED that the draft Standard should not include reduced disclosure requirements for insurance contracts within the scope of IFRS 17. However, we consider that the IASB should continue to assess the effectiveness of the disclosure requirements in IFRS 17 and propose reduced disclosure requirements in the draft Standard after entities have applied IFRS 17 for some time, once users are familiar with the new accounting model for insurance contracts and its effect on an entity's financial statements.

Structure of the draft Standard (refer to ED Question 9)

13. The HKICPA notes that the draft Standard is not an exhaustive list of disclosure requirements. It includes footnotes which require entities to refer to other IFRS Standards for disclosures that remain applicable when entities adopt the draft Standard. Under this structure, entities may easily miss the disclosure requirements in the footnotes. Accordingly, we recommend that the IASB incorporate the disclosures as currently required in the footnotes into the body of the draft Standard so that entities would not need to cross-refer to the disclosure requirements in IFRS Standards. Depending on the outcome of the Pilot Approach project, the IASB could also consider providing indication within the IFRS Standards of which disclosure requirements are exempted for entities adopting the draft Standard.

Suggested improvements to the disclosure requirements in the draft Standard

Requirements to add		
Standard	**Description**	**Rationale**
IFRS 3 *Business Combinations*	The disclosure of reasons why the transaction resulted in a bargain purchase gain (IFRS 3.B64(n)(ii)).	The appearance of a bargain purchase without disclosure of the underlying reasons would raise concerns in practice about the existence of measurement errors (i.e. measurement uncertainties as mentioned in BC34(c) of the ED).
IFRS 3	The disclosure requirement in IFRS 3.B64(j) in relation to a contingent liability that is not recognised under IFRS 3.	This disclosure can provide the users with information to assess the potential liabilities (BC34(a) of the ED) of the acquiree.
IFRS 7 *Financial Instruments: Disclosures*	The liquidity risk disclosure as required in IFRS 7.39 and B11.	The financial statements users are particularly interested in information about liquidity and solvency, and this is also in line with the principles used in developing the draft Standard (BC34(b) of the ED).
IFRS 15 *Revenue from Contracts with Customers* & IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*	Information about significant judgement and estimates. • Disclosures about assumptions related to future events (IAS 37.85(b)) • Significant judgements made in applying IFRS 15 (IFRS 15.110(b) and 123) • Separate disclosure of revenue in the scope of IFRS 15 (IFRS 15.113(a)) • Timing of revenue recognition and nature of goods or services (IFRS 15.119(a) & (c))	The disclosure of significant judgement and estimates can provide information about the measurement uncertainties (BC34(c) of the ED).
IAS 1 *Presentation of Financial Statements*	IAS 1.61 requires an entity to disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled: (a) no more than twelve months after the reporting period, and (b) more than twelve months after the reporting period.	This disclosure provides useful information to financial statements users in assessing the liquidity and solvency (BC34(b) of the ED) of the entity.

Requirements to add		
Standard	**Description**	**Rationale**
IAS 12 *Income Taxes*	IAS 12.81(f) requires the disclosure of the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint arrangements, for which deferred tax liabilities have not been recognised.	Such information is useful to some financial statements users for assessing the potential cash outflows (BC34(a) of the ED) if the subsidiaries, branches, associates and interests in joint arrangements declare dividends in the future.
IAS 36 *Impairment of Assets*	The sensitivity disclosure requirements in IAS 36.134(f).	They provide financial statements users with information for evaluating the measurement uncertainties (BC34(c) of the ED) of impairment tests.

Requirements to remove		
Standard	**Description**	**Rationale**
IFRS 7	Paragraph 48 of the ED requires an entity to disclose for assets reclassified out of the 'fair value through profit or loss' category so that they are measured at amortised cost or fair value through other comprehensive income in accordance with paragraph 4.4.1 of IFRS 9: (a) the effective interest rate determined on the date of reclassification; and (b) the interest revenue recognised.	In order to provide this disclosure, the related information needs to be tracked separately for a group of financial instruments being reclassified (as in most cases, reclassification is applied to a group of financial instruments as opposed to a single financial instrument). This requires significant effort yet the information disclosed is not of much interest to the financial statements users of entities without public accountability.
IFRS 16 *Leases*	Paragraph 103 of the ED requires a lessee to disclose for short-term leases and, separately, for other leases for which the underlying asset is of low value, the lease payments recognised as an expense for the reporting period when the entity has applied paragraph 6 of IFRS 16. The expense disclosed for short-term leases need not include that for leases with a lease term of one month or less.	The amounts of short-term leases and leases of low value assets are generally not significant and hence such disaggregation of amounts may not be useful for financial statements users.
IAS 1	Paragraph 117 of the ED requires an entity to present in the statement of financial position or disclose in the notes (a) property, plant and equipment in classifications appropriate to the entity in accordance with IAS 16; (b) trade and other receivables, showing separately amounts receivable from related parties, amounts receivable from other parties and receivables arising from contract assets; (c) inventories, showing classifications appropriate to the entity, in accordance with IAS 2 Inventories; (d) trade and other payables, showing separately amounts payable to trade suppliers, payable to related parties, deferred income and accruals; (e) provisions for employee benefits and other provisions; and (f) classes of equity, such as paid-in capital, share premium, retained earnings and items of income and expense that are recognised in other comprehensive income and presented separately in equity.	Items (a), (b), (c), (e) and (f) of paragraph 117 of the ED are the examples stated in IAS 1.78 for subclassification of line items but they are specified as the minimum disclosure requirements in the ED. We suggest that the ED follow the approach in IAS 1.78 so that an entity can apply judgement to determine the subclassification of line items.

Requirements to clarify		
Standard	**Description**	**Rationale**
IFRS 1 *First-time Adoption of International Financial Reporting Standards*	Footnote 3 of the ED stated that the disclosure requirement in IFRS 1.D2 applies to this ED. IFRS 1.D2 requires a first-time adopter to disclose the information required by IFRS 2.44 and 45.	However, the disclosure requirements for share-based payment arrangement in IFRS 2.45(c) & (d) were removed from the ED but footnote 3 of the ED did not mention that IFRS 2.45(c) & (d) do not apply to a first-time adopter. This may imply that a first-time adopter applying the draft Standard is required to disclose more information about share-based payment arrangement than a non-first-time adopter.
IFRS 7	IFRS 7.20A requires an entity to disclose an analysis of the gain or loss recognised in the statement of comprehensive income arising from the derecognition of financial assets measured at amortised cost, showing separately gains and losses arising from derecognition of those financial assets.	This requirement has been removed from the ED. However, this seems to be inconsistent with paragraph 54(a)(b) of the ED which requires similar disclosure requirements for financial assets measured at fair value through other comprehensive income.
IFRS 8 *Operating Segments* & IAS 33 *Earnings per Share*	Paragraph 4 of the ED states that the disclosure requirements in IFRS 8 *Operating Segments*, IFRS 17 *Insurance Contracts* and IAS 33 *Earnings per Share* remain applicable and are, therefore, not included in Appendix A. The application of the disclosure requirements in IFRS 8, IFRS 17 or IAS 33 is unchanged for an entity applying this draft Standard.	To avoid confusion, we suggest that the IASB specify that IFRS 8 and IAS 33 would only be applicable for entities applying this draft Standard if they voluntarily choose to disclose information in IFRS 8 and IAS 33.
IFRS 16	Paragraph 100(d) of the ED requires the disclosure for leases that have commenced by the end of the reporting period, the total of future lease payments at the end of the reporting period payable: (i) no later than one year from the reporting date; (ii) later than one year and up to five years from the reporting date; and (iii) later than five years from the reporting date.	It is unclear whether entities should disclose the undiscounted contractual amount or the discounted amount. Besides, according to IFRS 16.58, a lessee shall disclose a maturity analysis of lease liabilities applying IFRS 7.39 and B11 while IFRS 7.B11 mentioned that entity uses its judgement to determine an appropriate number of time bands. We suggest that entities applying this ED should also apply judgement to determine an appropriate number of time bands.

Requirements to clarify		
Standard	**Description**	**Rationale**
IAS 24 *Related Party Disclosures*	Paragraph 169 of the ED requires entities to disclose the nature of the related party relationship as well as information about the transactions, outstanding balances and commitments necessary for an understanding of the potential effect of the relationship on the financial statements. It also lists out the minimum disclosure requirements.	However, the disclosure on commitments is not included in the list of minimum disclosure requirements in paragraph 169 (a) to (d) of the ED. It is not clear whether an entity is required to disclose any commitments arising from related party transactions.
IAS 34 *Interim Financial Reporting*	Paragraph 185 of the ED includes a non-exhaustive list of events and transactions for which disclosures would be required if they were significant. One of the disclosures is transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments (paragraph 185(k)).	However, the disclosure of transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments as required under IFRS 13.93 has been removed from the ED for annual financial statements. It seems that the draft Standard requires more fair value disclosures in the interim financial statements than in the annual financial statements.

~ End ~