Staff paper

Agenda reference: 31B

IASB® meeting

Date	**January 2023**
Project	**Disclosure Initiative—*Subsidiaries without Public Accountability: Disclosures***
Topic	**Transition matters—changes in accounting policies**
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Purpose of this paper

1. This paper discusses the feedback on whether electing or revoking an election to apply the proposed IFRS Accounting Standard (the draft Standard), as set out in the International Accounting Standards Board's (IASB) Exposure Draft *Subsidiaries without Public Accountability: Disclosures* (Exposure Draft), requires an eligible subsidiary to apply the requirements on changes in accounting policies in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and to present a third statement of financial position as at the beginning of the earliest period presented as required by paragraph 40A of IAS 1 *Presentation of Financial Statements.*[1]

2. In this paper, the term 'eligible subsidiary' refers to entities that meet the requirements in paragraph 6 of the draft Standard.

Summary of staff recommendations

3. The staff recommend that the IASB clarifies in the Standard that an eligible subsidiary that elects, revokes an election or is no longer eligible to apply the Standard:

   (a) does not apply the requirements in IAS 8 on changes in accounting policies; and

   (b) is not required to present a third statement of financial position as at the beginning of the earliest period presented.

[1] In this paper, 'electing or revoking an election' to apply the Standard also include circumstances when a subsidiary ceases to apply the Standard because it becomes ineligible.

Structure of the paper

4. This paper is structured as follows:

   (a) background (see paragraphs 5–6);

   (b) feedback on the Exposure Draft (see paragraph 7);

   (c) staff analysis (see paragraphs 8–16); and

   (d) staff recommendation and question to the IASB (see paragraph 17).

Background

Question in the Invitation to Comment

5. Question 10 of the Invitation to Comment on the Exposure Draft asked for any other comments on the proposals in the draft Standard or other matters in the Exposure Draft. In responding to Question 10, some respondents asked whether electing or revoking an election to apply the Standard requires an eligible subsidiary to apply IAS 8.

IAS 8 and the draft Standard

6. Paragraphs BC82—BC83 of the Basis for Conclusions on the Exposure Draft state:

> In its deliberations, the Board considered the requirements in IAS 8 on changes in accounting policies. The Board noted that a subsidiary need not apply those requirements when it elects to apply the draft Standard or revokes that election.
>
> Further, the Board considered the interaction of electing or revoking the election to apply the draft Standard with the requirements to present a statement of financial position in circumstances described in paragraphs BC78 and BC80 as at the beginning of the preceding period (see paragraph 40A of IAS 1). The Board noted that a 'third statement of financial position' is unnecessary because it would not change the recognition or measurement of items or amounts presented in the primary financial statements.

Feedback on the Exposure Draft[2]

7. Respondents who commented agreed with the IASB's observations in paragraphs BC82–BC83 of the Exposure Draft but suggested clarification would be helpful in Standard itself, rather than in the Basis for Conclusions.

[2] See Agenda Paper 31A *Feedback from comment letters*, Agenda Paper 31B *Feedback from outreach events* and IASB Update of the of the April 2022 IASB meeting.

Staff analysis

8. IAS 8 includes requirements on when an entity shall change its accounting policies and how an entity accounts for a change in an accounting policy. Paragraph 14 of IAS 8 states:

> An entity shall change an accounting policy only if the change:
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> (a) is required by an IFRS; or
>
> (b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

9. Furthermore, IAS 1 requires an entity to present a third statement of financial position when it applies an accounting policy retrospectively. Paragraph 40A of IAS 1 states:

> An entity shall present a third statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statements required in paragraph 38A if:
>
> (a) it applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements; and
>
> (b) the retrospective application, retrospective restatement or the reclassification has a material effect on the information in the statement of financial position at the beginning of the preceding period.

10. Paragraphs 10–11 of the draft Standard set out the proposed requirements for comparative information when an eligible subsidiary elects, or revokes an election, to apply the draft Standard:

    (a) for an eligible subsidiary that applied IFRS Accounting Standards in the preceding period and elects to apply the Standard in the current period, the subsidiary applies the disclosure requirements in the Standard. The subsidiary would not include in its current period's financial statements comparative information for any disclosures it had included in the preceding period that are not required by the Standard.

    (b) for an eligible subsidiary that revokes the election to apply the Standard (or cease to be eligible to apply the Standard) and continues to apply IFRS Accounting Standards, the subsidiary applies the disclosure requirements in IFRS Accounting Standards. The subsidiary would include in its current period's financial statements any disclosures that are required by IFRS Accounting Standards, including comparative information for disclosures not required by the Standard in the preceding period.

11. In Agenda Paper 31B *Transition to the reduced-disclosure IFRS Standard*, discussed at the December 2020 IASB meeting, the staff observed that the disclosures in subsidiary's financial statements when it elects, or revokes an election, to apply the draft Standard would not differ from the disclosures required by IAS 8 for changes in accounting policies.

12. The IASB's tentative decisions during its redeliberations of the proposals in the draft Standard do not change either the staff's December 2020 observation or the IASB's statement in paragraph BC82 of the Basis for Conclusions on the Exposure Draft that a subsidiary need not apply the requirements in IAS 8 when it elects to apply the draft Standard or revokes that election.

13. In considering the feedback on the Exposure Draft, the staff notes that respondents did not disagree with the IASB's view but sought clarity in the Standard itself.

14. Similarly, in paragraph BC83 of the Basis for Conclusions of the Exposure Draft, the IASB noted that a 'third statement of financial position' is unnecessary because it would not change the recognition or measurement of items or amounts presented in the primary financial statements. Again, the feedback on the Exposure Draft did not question the IASB's view but sought clarity in the Standard itself.

15. The staff support the view of respondents that it would assist the application of the Standard if clarity was provided in the Standard itself. The staff have not identified a problem that would arise if clarity was provided in the Standard itself.

16. In conclusion, the staff think that including the IASB's observations in the Standard that an eligible subsidiary is not required to apply IAS 8 and paragraph 40A of IAS 1 when it elects, or revokes an election, to apply the Standard would be helpful to preparers because it avoids doubt about whether those requirements apply.

Staff recommendation and question to the IASB

17. Given the analysis in paragraphs 8–16, the staff recommend that the IASB clarifies in the Standard that an eligible subsidiary that elects, revokes an election, or is no longer eligible, to apply the Standard:

    (a) does not apply the requirements in IAS 8 on changes in accounting policies; and

    (b) is not required to present a third statement of financial position as at the beginning of the earliest period presented.

Question for IASB members
Does the IASB agree with staff recommendation set out in paragraph 17 of this paper?