The Institute of
Chartered Accountants
of Pakistan

CA
PAKISTAN

HEAD OFFICE

January 31, 2022

(Submitted Electronically)

International Accounting Standards Board
London, United Kingdom

Comments on the Exposure Draft - *Subsidiaries without Public Accountability: Disclosures*

Dear Board Members,

The Accounting Standards Board of the Institute of Chartered Accountants of Pakistan is pleased to comment on the Exposure Draft (ED) '*Subsidiaries without Public Accountability: Disclosures*' issued by the International Accounting Standards Board (the Board/ IASB) in July 2021.

We support the Board's initiatives and projects that are focused on reducing and simplifying the disclosures. However, we have concerns that whether ED would be beneficial for all eligible subsidiaries in reducing costs and efforts. For the preparation of consolidated financial statements, eligible subsidiaries would be required to provide detailed information for meeting IFRS disclosure requirements. This situation could lead to increased efforts and costs. Further, in Pakistan (under the corporate law) subsidiaries of listed entities are required to prepare IFRS compliant financial statements. The proposed standard is expected to have limited benefits for the eligible subsidiaries, as they are already preparing IFRS compliant financial statements.

We note that the reduced disclosure requirements of ED are 'optional' within the existing IFRS. We have concerns that the two different disclosure frameworks within IFRS (i.e. full IFRS disclosures and ED disclosures) may lead to unintended confusion and misunderstanding among the stakeholders. The stakeholders because of two alternative disclosure options within might think that there are two tiered/alternative versions of IFRS.

The Appendix to this letter contains our detailed responses to the questions in the ED.

We hope our comments are helpful to the IASB's deliberation on the ED. For any clarification concerning our comments, please contact the undersigned, at sohail.malik@icap.org.pk

Yours truly,

Sohail Malik
Director Technical Services

Encl. As above

Appendix

ICAP Comments on
Exposure Draft (ED/2021/7) – Subsidiaries without Public Accountability: Disclosures

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?

Comments

With regards to the objective of the ED, we agree with the proposed objective of specifying reduced disclosure requirements for the financial statements of 'eligible' subsidiaries (i.e. subsidiaries without public accountability) that are in the scope of the project.

In Pakistan, under the corporate law (i.e. the Companies Act, 2017) a differential financial reporting framework has been set. Differential financial reporting framework is prescribed based on the size (capital, assets thresholds etc.) of the entities. The framework includes IFRS Standards (applicable for listed, other public interest entities, large-sized companies and subsidiaries of listed companies), IFRS for SMEs (applicable for medium-sized companies) and a separate Accounting standard for small-sized companies. Importantly, the subsidiaries of listed entities (irrespective of their size) are required to prepare their separate financial statements in accordance with IFRS Standards.

Our stakeholders have informed that they see limited benefit of the ED as their accounting systems and processes are accustomed to preparing full IFRS Standards compliant disclosures. Further, users of financial statements also understand their financial statement disclosures. Moreover, in case they opt for the reduced disclosures of ED, they would still be required to provide detailed information for meeting full IFRS disclosure requirements for consolidation purposes. This situation could lead to increased efforts and costs.

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?

Comments

We note that the scope of ED (in paragraph 6) specifies that an entity would be permitted to apply the proposed disclosure requirements in its consolidated, separate or individual financial statements if, at the end of its reporting period, it is a subsidiary that does not have public accountability and has a parent (ultimate or intermediate) that produces consolidated financial statements available for public use that comply with IFRS Standards.

Our stakeholders have suggested for increasing the scope of the ED by scoping in SMEs (that are not eligible subsidiaries). The argument could be that SMEs could use IFRS Standards but with reduced disclosures.

The scope of entities on which IFRS and IFRS for SMEs apply rests with the jurisdictions. The same approach should be applied for the ED. The regulatory authorities and national standard-setters should be provided the discretion to decide the SMEs that could apply the reduced disclosures of the ED.

We also note that that ED should provide explanation of the term 'available for public use'. In Pakistan, copy of financial statements of any company can be obtained from the corporate regulator on the payment of prescribed fee. This availability of financial statements can be construed as 'available for public use'. A clarification in this regard would be helpful.

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?

Comments

We agree with the Board's approach for developing the proposed disclosure requirements. Overall, we agree with the Board's point of view of giving due consideration and importance to the concept of saving undue cost and effort during the development of the ED.

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? Question 4—Exceptions to the approach

(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?

Comments

(a) Our comments on the exceptions from the approach have been summarized as below:

1. Disclosure Objectives:

   We believe the approach to exclude the disclosure objectives from the draft Standard might compromise the reliability and completeness of the information required to enable the users of the financial statements to make informed decisions.

   Furthermore, we observe that the basis of this exception as explained in Paragraph BC 41 can still be achieved while including the disclosure objectives along with a requirement for the management to apply its professional judgement that any additional disclosure in view of disclosure objective is to be provided only if the concept of undue cost and effort is maintained.

2. Investment Entities:

   We understand the Board has excluded the requirements of paragraph 19D(b), 19(E)-(G) of

IFRS 12 for subsidiaries that are investment entities and the requirements of paragraph 30 and 31 for subsidiaries that are non-investment entities. Overall we agree with the approach as we believe the same would facilitate in achieving the overall objective of the draft Standard without materially impacting the reliability and completeness of the information.

3. Changes in liabilities from financing activities:

   We agree with the Board's approach and the proposed disclosure as provided in paragraph 130.

4. Exploration for and evaluation of mineral resources:

   We agree with the Board's approach to include the disclosure requirements of IFRS 6 in the proposed standard. IFRS 6 might not be every relevant for SMEs, nevertheless, the likeliness for subsidiaries of listed entities to enter in to this specific industry exists and therefore it's coverage is necessary.

5. Defined benefit obligation:

   We would like to request the Board to further explain the reasons for which a deviation from the approach was considered necessary in this case.

6. Improvements to disclosure requirements of IFRS Standards:

   We agree with the Board's approach.

7. Additional disclosure requirements of IFRS for SMEs:

   We support the Board's approach to exclude outdated/obsolete/replaced disclosure requirements of IFRS for SMEs.

(b) Reconciliation for liabilities arising from financing activities

(i) In our view the information required by paragraph 130 of the draft Standard generally would not differ from the information that an eligible subsidiary reports to its parent for purposes of paragraphs 44A–44E of IAS 7 Statement of Cash Flows.

(ii) Yes consolidated financial statements usually include a reconciliation for liabilities arising from financing activities to satisfy the disclosure requirements in paragraphs 44A–44E of IAS 7.

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?

Comments

This approach is reasonable, as BC58 of the ED explains that a new or amended IFRS Standard would contain specific transitional and initial application requirements. Entities, applying this draft (standard) would be required to consider transition requirements of the specific IFRS 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.

Comments

In Pakistan, insurance entities are regulated under the specific law. A company can engage in insurance business subject to regulatory approvals. Insurance companies are categorized as public interest companies for financial reporting purposes, and are required to prepare financial statements in accordance with IFRS Standards and other regulatory requirements. The ED (as stated in paragraph 7 (b)) also categorize insurance companies as companies that have public accountability.

We have no substantial evidence of a non-insurance sector subsidiary that issues insurance contracts. Accordingly, the discussion of reduced disclosures of IFRS 17 for subsidiaries that are issuing insurance contracts is not relevant to Pakistan jurisdiction.

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?

Comments

We agree with including disclosure requirements for IFRS 1 in the draft Standard rather than leaving the disclosure requirements in IFRS 1. Further we also agree with the proposals in paragraphs 12–14 of the ED.

We would like to suggest that paragraph BC 82 should be incorporated into the Standard instead. It is important to clarify that an entity applying the proposed Standard need not to apply the requirements in IAS 8 on changes in accounting policies when it elects to apply the draft Standard or revokes that election.

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?

Comments

We agree with the proposed reduced disclosures. Expanding the scope of the ED (by allowing jurisdictions to permit its use by SMEs) would be beneficial.

The impact of the reduced disclosures on the users of the financial statements would be better assessed in the post implementation study phase wherein user perspective can be gathered.

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 organized 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?

Comments

On the structure of the ED We have following suggestions to make it more readable and easy to understand:

- the paragraphs of the respective IFRS Standards that have been retained should be disclosed as part of the Standard rather than as foot notes. As the foot notes are often missed by the users and are not very prominent to ensure that the user might not miss it; and

- the paragraphs of the respective IFRS Standards that have been excluded by the draft Standard can be considered to be mentioned in the specific sections of the proposed Standard where the disclosure requirements of the proposed Standard have been mentioned. This can be done while retaining the Appendix A as it is. The suggestion is to improve the usability of the Standard.

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)?

Comments

The ‘optional approach’ of electing to apply the ED seems appropriate. Under this approach an entity that elects to apply the reduced disclosures may later revoke that election (and move back to disclosure requirements of full IFRS Standards).

We have concerns that the two different disclosure frameworks within IFRS (i.e. full IFRS disclosures and ED disclosures) may lead to unintended confusion and misunderstanding among the stakeholders. The stakeholders due to two alternative disclosure options might think that there exist two tiered versions of IFRS Standards.