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International Accounting Standards Board (IASB)
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Berne, 31. January 2022

Comment Letter on Exposure Draft ED/2021/7 Subsidiaries without Public Accountability: Disclosures

Dear Sir or Madam,

SwissHoldings, the Swiss Federation of Industrial and Services Groups in Switzerland, represents 61 Swiss groups, including most of the country's major industrial and commercial enterprises. We are pleased to provide comments on the exposure draft on Subsidiaries without Public Accountability: Disclosures.

Our association welcomes the proposed introduction of the new and simplified standard for subsidiaries without public accountability. It will reduce the administrative burden as well as costs for financial reporting for said preparers. However, we would like to encourage the IASB to reconsider the scope and broaden it to all entities without public accountability.

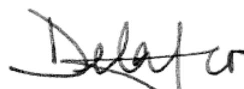
We provide our comments in relation to the specific questions raised in the ED following the position of BUSINESSEUROPE in the annex.

If you require any further information upon these matters, please do not hesitate to contact us.

Yours sincerely,

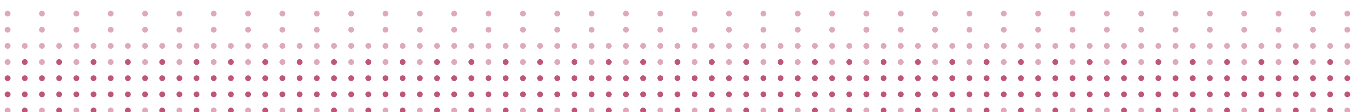
SwissHoldings

Federation of Swiss-based multinational enterprises



Dr. Gabriel Rumo
Director

Denise Laufer
Member of the Executive Committee



Annex

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 agree with the objective of the standard.

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 do not agree with the proposed scope. We believe that all entities that do not have public accountability should be able to apply the standard, i.e. to be able to apply recognition and measurement principles according to (full) IFRS while applying the reduced disclosure requirements. The application of the standard should not be restricted to subsidiaries that has an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Standards. We therefore agree with the alternative view expressed by Ms. Flores.

We would also like to encourage the IASB to elaborate on the potential use of such a standard by subsidiaries that have public accountability. There may be circumstances where subsidiaries have only limited disclosure requirements within their jurisdiction and would adopt IFRS if a limited scope of disclosures was available (and subject to the local requirements). Hence, this could be an attractive alternative for these subsidiaries.

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 agree. However, we note that the approach is different from the proposed approach in the ED Disclosure Requirements in IFRS Standards – A Pilot Approach. The Board therefore might have to consider how to conceptually align the approaches if the Pilot project is carried on

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?

We understand that there are some challenges when tailoring the disclosure requirements and that specific exceptions may be needed to either provide useful information or reduce costs for preparers. It is however not entirely clear in some cases what the rationale for the exception is, notwithstanding what is said in the Basis for Conclusions. Some examples:

- To which principle the exception relates to. An example is the exclusion of disclosure objectives. It is not clear to us if this is an exception to the principle of tailoring the IFRS for SMEs when there is a recognition or measurement difference or an exception to the approach described in BC 157 of the Basis for Conclusions of IFRS for SMEs, or some other principle.

  In BC 157 of IFRS for SMEs it is stated:

  Assessing disclosures on the basis of users' needs was not easy, because users of financial statements tend to favour more, rather than fewer, disclosures. The Board was guided by the following broad principles:

  a) Users of the financial statements of SMEs are particularly interested in information about short-term cash flows and about obligations, commitments or contingencies, whether or not recognised as liabilities. Disclosures in full IFRSs that provide this sort of information are necessary for SMEs as well.

  b) Users of the financial statements of SMEs are particularly interested in information about liquidity and solvency. Disclosures in full IFRSs that provide this sort of information are necessary for SMEs as well.

  c) Information on measurement uncertainties is important for SMEs.

  d) Information about an entity's accounting policy choices is important for SMEs.

  e) Disaggregation of amounts presented in SMEs' financial statements are important for an understanding of those statements.

  f) Some disclosures in full IFRSs are more relevant to investment decisions in public capital markets than to the transactions and other events and conditions encountered by typical SMEs.

- Why in some cases recent improvements to disclosure requirements in IFRS standards have been considered, while others have not been considered. The approach seems to be inconsistent and therefore difficult for stakeholders to understand.

We therefore believe that exceptions should be better explained. Regarding the specific exceptions we have following comments.

- Disclosure objectives (BC 41). We agree with the IASB that including disclosure objectives in the standard might result in entities being compelled to provide the same disclosures as in full IFRS, which would go against the project objective.

  However, we believe that when deciding on disclosures for entities without public accountability following this ED there is a need to also take the outcome of the project ED Disclosure Requirements in IFRS Standards A Pilot Approach into account.

(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.

We are hesitant to agree with the proposal. It seems unclear whether there is an actual demand for such information. In general, it could be assumed that subsidiaries with external financing

arrangement fall under a parental guarantee and that an assessment of the solvency is based on the absolute amount of debt financing. Further, a subsidiary may not provide such a reconciliation on a separate entity level. Hence, we question whether this information would have any benefit that would justify the effort.

(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?

We have not made a survey among our members. But according to some preparers we have been in contact with, there would be a difference.

(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, according to our understanding.

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 in principle that a transition to new or amended standards should be transparent in the financial statements of the subsidiary. However, depending on the amount of additional disclosure, it may be worthwhile to consider whether – on a case-by-case basis – limiting disclosures could be justified.

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.

We do not have a final position on this question but want to mention that also non-financial groups may have subsidiaries that conduct insurance business of a very limited scope (from a group perspective). Requiring the full set of IFRS 17 disclosures could discourage such subsidiaries from transitioning to IFRS if such disclosures are not required for the group reporting (i.e. the group would not report on insurance activities due to materiality considerations).

(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.

Our understanding is that insurance companies in the EU generally are considered to be PIEs and they would therefore not be able to apply the standard.

However, there might also be non-financial corporates that are not insurance companies that issue insurance contracts within the scope of IFRS 17. We have no data available on how common this is.

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.

Yes, we agree.

(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?

Yes, we agree.

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?

N/A.

(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?

N/A.

(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?

IAS 1.15 is applicable also for subsidiaries without public accountability (it follows indirectly from the list in Appendix A of the draft standard), i.e. an entity applying the draft standard is required to present fairly. The heading before paragraph 110 of the draft standard is "Fair presentation and compliance with IFRS Standards". To make it clear that the requirement to present fairly also

applies when disclosing information according to the draft standard, a reference to IAS 1.15 could be inserted in paragraph 110 of the draft standard, or the text of IAS 1.15 is adopted into the draft standard in a suitable way.

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 agree that it should be a stand-alone standard. However, we consider that it is challenging to navigate through the standard, with three separate sections with disclosure requirements.

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 consider that it is important that the content of the standard proposed in this ED is coordinated with the IFRS for SMEs, so that disclosure requirements in IFRS for SMEs are not more onerous.