Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany

DRSC e. V. • Joachimsthaler Str. 34 • 10719 Berlin

Jean-Paul Gauzès
EFRAG Board President
35 Square de Meeûs
B-1000 Brussels

Financial Reporting Technical Committee
Phone: +49 (0)30 206412-12
E-Mail: info@drsc.de

Berlin, 31 January 2022

Dear Jean-Paul,

IASB Exposure Draft ED/2021/7 *Subsidiaries without Public Accountability: Disclosures*

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to contribute to EFRAG's draft comment letter on the IASB's Exposure Draft ED/2021/7 *Subsidiaries without Public Accountability: Disclosures* (herein referred to as the 'ED') by providing in advance our feedback vis-à-vis the IASB.

Please find attached our comment letter to the IASB, containing our detailed comments on the questions raised in the ED.

If you would like to discuss our comments further, please do not hesitate to contact Ilka Canitz (canitz@drsc.de) or me.

Yours sincerely,

Sven Morich

Vice President

Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany

DRSC e. V. • Joachimsthaler Str. 34 • D-10719 Berlin

Prof Dr Andreas Barckow
Chair of the
International Accounting Standards Board
Columbus Building
7 Westferry Circus / Canary Wharf
London E14 4HD

Financial Reporting Technical Committee
Phone: +49 (0)30 206412-12
E-Mail: info@drsc.de

Berlin, 31 January 2022

Dear Andreas,

IASB Exposure Draft ED/2021/7 *Subsidiaries without Public Accountability: Disclosures*

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the Exposure Draft ED/2021/7 *Subsidiaries without Public Accountability: Disclosures* issued by the IASB on 26 July 2021 (herein referred to as the "ED"). We appreciate the opportunity to comment on the ED.

We welcome and support the IASB's objective to develop a reduced set of disclosure requirements for subsidiaries without public accountability. We believe that eligible subsidiaries would benefit from applying the draft Standard, as the IASB suggests significantly fewer disclosure requirements when compared to the full disclosure requirements of IFRS Standards.

Permitting eligible subsidiaries to apply the reduced disclosure requirements of the draft Standard and the recognition, measurement and presentation requirements in IFRS Standards, would eliminate unnecessary costs for many subsidiaries in preparing general purpose financial statements, while maintaining information needed by the users of those subsidiaries' financial statements.

We also agree to limit the scope of the draft Standard to subsidiaries without public accountability for the time being. However, the IASB should consider whether to permit other types of non-publicly accountable entities to apply the draft Standard at a later stage. As we do not share some of the ED's arguments for limiting the scope, the IASB should evaluate in due course whether the reduced set of disclosures would also provide useful information when applied outside a group context by other types of entities without public accountability (i.e., entities that are not subsidiaries).

With regard to our jurisdiction, German Commercial law does not exempt domestic entities from their duty to prepare statutory annual accounts in accordance with German GAAP. Therefore, applying IFRS Standards in their separate financial statements is very rare, and hence, is limiting the actual relevance of the draft Standard for German subsidiaries. Furthermore,

Contact:
Joachimsthaler Str. 34
D-10719 Berlin
Phone: +49 (0)30 206412-0
Fax: +49 (0)30 206412-15
E-Mail: info@drsc.de

Bank Details:
Deutsche Bank Berlin
IBAN-Nr.
DE26 1007 0000 0070 0781 00
BIC (Swift-Code)
DEUTDEBBXXX

Register of Associations:
District Court Berlin-Charlottenburg, VR 18526 Nz
President:
Georg Lanfermann
Vice President:
Prof Dr Sven Morich

consolidated financial statements on a subgroup level are not mandatory to prepare in most cases.

Nevertheless, according to the feedback that we have received from our constituency, large multinational groups may benefit from a reduced set of disclosure requirements for subsidiaries, even though such a Standard would in our jurisdiction primarily apply to their foreign subsidiaries (if IFRS Standards are permitted or required under the respective national law of the subsidiary).

Further, we note, that the notion of "*public accountability*" (as defined by paragraph 7 of the draft Standard differs from "*public-interest entities"* (PIE), the latter being a defined legal term in the European Union (ref. Article 2 of the Accounting Directive 2013/34/EU and Article 2 No. 13 of the Audit Directive 2006/43/EC) as well as under German Commercial law (ref. sections 264d, 340k (1), 341 (4) of German Commercial Code). Reporting requirements on "*public-interest entities"* could have the effect of (further) restricting or changing the scope of subsidiaries that are permitted to apply the draft Standard in the EU Member States and this needs to be subject to further considerations.

Regarding the IASB's approach to developing the reduced disclosure requirements for subsidiaries without public accountability, we believe that using the disclosure requirements of the *IFRS for SMEs* Standards (when recognition and measurements requirements do not differ from IFRS Standards) is an efficient approach. However, we note that – on the one hand – the IASB proposes including some disclosure requirements in the draft Standard that are required by IFRS Standards, but not by the *IFRS for SMEs* Standard, even though there are no differences in recognition and measurement requirements. In this regard, it is difficult to understand the IASB's reasons for including these disclosure requirements in the draft Standard, as in some cases we could not find any explanation in the Basis for Conclusions.

On the other hand, we have identified certain disclosure requirements under full IFRS which we believe are relevant for entities without public accountability but are neither included in the *IFRS for SMEs* Standard nor in the ED (i.e., information on liquidity risk) and, hence, should be added to the disclosure requirements of the draft Standard.

In light of the IASB's general approach to using the disclosure requirements from the *IFRS for SMEs* Standards, we therefore recommend the IASB develop a table of concordance that would explain any differences between the disclosure requirements of the *IFRS for SMEs* Standards and the draft Standard.

As regards to the proposed disclosure requirements we welcome that the IASB proposes a significant reduction in disclosure requirements for eligible subsidiaries (e.g., the disclosure requirements under IFRS 7, IFRS 12 and IFRS 13, among others, would be significantly reduced by the draft Standard). We believe that eligible subsidiaries would benefit from this relief.

Our assessment of the proposals reflects currently applicable disclosure requirements of IFRS Standards and the *IFRS for SMEs* Standard. However, both, the *IFRS for SMEs* Standard and the disclosure requirements of IFRS Standards are currently subject to major standard-setting projects that the IASB is undertaking to improve both sets of Standards, namely the IASB ED/2021/3 *Disclosure Requirements in IFRS Standards – A Pilot Approach* and the Second Comprehensive Review of the *IFRS for SMEs* Standard. As a result of these aforementioned

projects, the IASB may need to consider amending the draft Standard for non-public accountable subsidiaries at a future date.

Regarding the proposed structure of the draft Standard, we believe that referring by footnotes to disclosure requirements of other IFRS Standards that continue to apply, is not user-friendly and risks that disclosure requirements are overlooked. Instead, we would have preferred that the IASB combine the requirements applicable for non-publicly accountable subsidiaries in a single, comprehensive document (i.e., develop a "*bound volume*" for subsidiaries) that includes both the recognition and measurement requirements of the IFRS Standards and the reduced disclosure requirements of the draft Standard.

Our responses to the complete set of questions raised in the invitation to comment are laid out in the appendix to this letter. If you would like to discuss our comments further, please do not hesitate to contact Ilka Canitz (canitz@drsc.de) or me.

Yours sincerely,

Sven Morich

Vice President

Appendix – Answers to the questions in the ED

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?

Proposed objective of the draft Standard (paragraph 1)

We support and agree with the proposed objective of the draft Standard. We believe that the draft Standard would simplify financial reporting of subsidiaries that would be within the scope or the draft Standard. Eligible subsidiaries would benefit from significantly fewer disclosure requirements, even though these subsidiaries might be required to report more detailed information to their parent for the parent entity's consolidated financial statements (that the draft Standard does not require a subsidiary to disclose in its financial statements). Furthermore, eligible subsidiaries would benefit from applying the draft Standard as the internal quality assurance and audit effort would be reduced, since fewer disclosures would be subject to audit. The auditor could also leverage on the work performed for the statutory audit and group reporting (i.e., the subsidiary's reporting to the parent entity).

As the draft Standard permits eligible subsidiaries to apply the reduced disclosure requirements and the recognition, measurement and presentation requirements in IFRS Standards, it would eliminate unnecessary costs for many subsidiaries in preparing general purpose financial statements, while maintaining information needed by the users of those subsidiaries' financial statements.

Especially large multinational groups could benefit from the draft Standard, since considerable synergy potentials (e.g., through shared service centres) could be exploited and the costs of preparing separate financial statements across all subsidiaries could be significantly reduced. The prerequisite, however, is that applying IFRS Standards in separate financial statements is permitted or required under the respective local law of the subsidiaries. For further details on whether the draft Standard could be applied by German subsidiaries, given the applicable German Commercial law, please refer to our comments below.

Applicability of the draft Standard for German entities, given current German Commercial law

The relevance of the draft Standard and its applicability to subsidiaries depends on whether current national law permits or requires entities to prepare separate or group financial statements in accordance with IFRS Standards. Within the European Union, the applicability of the

draft Standard thus depends in particular on how the IAS Regulation (Regulation (EU) No. 1606/2002) has been implemented by the Member States into national law.

Given the implementation of the IAS Regulation into German Commercial law, we have identified several possible situations in which the draft Standard (if endorsed by the European Union) could be applied by a German entity or its subsidiaries (provided they are within the scope of the draft Standard). These situations include:

(1) **Separate financial statements of a German subsidiary** – According to section 325 (2a) of the German Commercial Code, German entities are permitted to prepare separate financial statements applying (full) IFRS Standards for the purpose of filing these financial statements with the German OAM. However, any separate financial statements that are voluntarily prepared and published in accordance with IFRS Standards do not exempt a German entity from its duty of preparing and publishing statutory annual accounts prepared in accordance with the German Commercial Code and other national regulations.
(2) **Consolidated financial statements of a German subgroup** (i.e., a German subsidiary preparing consolidated financial statements) that are voluntarily prepared in accordance with IFRS Standards (in accordance with section 315e (3) of the German Commercial Code)
(3) **Financial statements of a foreign subsidiary** (with a parent entity having its registered office in Germany), if IFRS Standards are permitted or required under local law for the separate financial statements of that subsidiary.

Consequently, we believe that the draft Standard will not be relevant for most German subsidiaries at this stage since IFRS are not the general accounting standards used for statutory purposes. (The legal reasons are that – apart from providing decision useful information for investors – statutory annual accounts in Germany also serve for capital maintenance, as a basis for dividend distributions and for determining taxable profits.)

Furthermore, subsidiaries that are consolidated in the group financial statements of a parent entity with its registered office in a Member State of the European Union are exempted from preparing separate financial statements under German Commercial law if all shareholders of the subsidiary have agreed to the exemption and certain other conditions are met (ref. for instance section 264 (3) of the German Commercial Code). Similarly, such subsidiaries need not prepare consolidated financial statements for their subgroup level if consolidated financial statements of its parent company are prepared, audited and filed (ref. section 291 (1) of the German Commercial Code).

Nevertheless, according to the feedback that we have received from the preparer side in our jurisdiction, large multinational groups may benefit from an IFRS Standard with reduced disclosure requirements for subsidiaries. Even though such an IFRS Standard would primarily be applicable to the financial statements of their foreign subsidiaries, these groups expect incremental benefits and cost savings from such a Standard.

As regards the definition of "*public accountability*", we note that the definition provided in paragraph 7 of the draft Standard differs from the notion of "*public-interest entities*" (PIEs) which is a defined legal term both in the European Union (ref. Article 2 of the Accounting Directive 2013/34/EU and Article 2 No. 13 of the Audit Directive 2006/43/EC) and in German Commercial law (ref. sections 264d, 340k (1) and 341k (4) of the German Commercial Code). Reporting requirements on "*public-interest entities"* could have the effect of (further) restricting or

changing the scope of subsidiaries that are permitted to apply the draft Standard in the EU Member States and this needs to be subject to further considerations.

Considerations on the incremental benefits for subsidiaries from applying the draft Standard

The draft Standard would allow eligible subsidiaries to prepare financial statements in accordance with IFRS Standards by adopting a reduced set of disclosures. However, as regards to the incremental benefits from applying the draft Standard, we note that the following points need to be considered as well:

- Materiality thresholds at subsidiary level will be lower than at group level. On the one hand, it is therefore likely that a relatively small subsidiary will not be required to report many disclosures for group reporting purposes to its parent entity (as the amounts are not material from the group's perspective). In such situations, subsidiaries could significantly benefit from applying the draft Standard, if many disclosures (that are immaterial from a group perspective) do not have to be disclosed in the subsidiary's separate financial statement according to the draft Standard, either. If, on the other hand, an item of information is required by the draft Standard but has not to be reported to the parent for the purpose of the parent entity's group financial statements (as the amounts are immaterial from a group perspective), such a situation would de facto result in additional disclosure requirements for the subsidiary.
- For subsidiaries that were acquired in a business combination, two different sets of IFRS amounts may have to be maintained, as IFRS book values in the separate financial statements may be different from IFRS amounts for group financial statements (e.g., due to PPA step-ups). However, applying the draft Standard with reduced disclosure requirements might also reduce the cost for maintaining additional accounting records for IFRS values (depending on the reporting level at which the PPA step-ups are maintained), as the draft Standard includes significantly fewer disclosure requirements.
- Local law might impose additional disclosure requirements and could possibly limit the benefits from applying the draft Standard. For instance, under current German commercial law, some additional disclosure requirements apply to group financial statements that are prepared in accordance with IFRS (ref. section 315e (1) of the German Commercial Code).
- The draft Standard does not address any accounting issues that are specific to separate financial statements (such as, the accounting for related party transactions, BCUCC transactions in separate financial statements, or the accounting for intra-group loans). Consequently, the IASB and the IFRS Interpretations Committee may be increasingly called upon to deal with IFRS accounting issues in separate financial statements in the future.

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?

The IASB's decision to limit the scope of the draft Standard to subsidiaries without public accountability (paragraphs BC15-BC16)

We agree with the proposed scope of the draft Standard. In particular, we agree with the IASB's decision not to extend the scope of the draft Standard to all entities without public accountability at this stage.

We acknowledge that the IASB's project was originally launched to address cost-benefit-considerations for a particular subset of small and medium-sized enterprises (SMEs), i.e., subsidiaries that are SMEs (ref. paragraph BC16(e)). We therefore agree with the IASB that the proposed scope is consistent with the project objective and the feedback from stakeholders calling for reduced disclosure requirements for subsidiaries whose parent prepares consolidated financial statements applying IFRS Standards (ref. paragraph BC16(a)).

However, some of the reasons provided by the IASB why not allowing other entities without public accountability (that are not subsidiaries) to apply the more complex recognition and measurement requirements of IFRS Standards combined with the reduced disclosure requirements of the draft Standard are not convincing:

- The IASB acknowledges that the information needs of users of a subsidiary's financial statements are the same as those of an SME, since all subsidiaries within the scope of the draft Standard are also eligible to apply the *IFRS for SMEs* Standard. Accordingly, the IASB had decided to use the disclosure requirements of the *IFRS for SMEs* Standard (as well as the principles it had applied when originally developing the *IFRS for SMEs* Standard) to develop the reduced disclosure requirements for subsidiaries within the scope of the draft Standard (ref. paragraph BC29).
- Expanding the scope of the draft Standard would also have some practical advantages. For example, if a subsidiary is disposed of during the reporting period, with the effect that that subsidiary is no longer within the scope of the draft Standard, that subsidiary would be required to prepare its financial statement in accordance with full IFRS Standards or the *IFRS for SMEs* Standard. Such a subsidiary could have a legitimate interest in continuing to apply the draft Standard, as it otherwise would be forced at short notice to provide a full set of IFRS disclosures or to convert to another accounting framework.
- Further, we note that maintaining the draft Standard will require additional resources and thus could be costly. Therefore, we question whether a new IFRS Standard for a specific group of stakeholders can be justified from a cost-benefit-perspective, considering that the IASB would need to maintain three different sets of IFRS Standards in the future: (1) full

IFRS Standards, (2) the *IFRS for SMEs* Standard, and (3) the draft Standard with reduced disclosure requirements.

On balance, we nevertheless agree with the IASB's decision to limit the scope of the draft Standard to subsidiaries without public accountability for the time being. As the IASB explains in paragraph BC16(f), restricting the scope to subsidiaries without public accountability enables the IASB to test that approach. Should the proposals in the ED proceed to a Standard, the IASB could consider the effectiveness of the reduced disclosure requirements in practice before deciding whether it should allow more SMEs to apply such a Standard (ref. paragraph BC16(f)). It may then also be re-evaluated whether the reduced set of disclosures would provide useful information when applied in a non-subsidiary context for entities without public accountability (i.e., entities that are not subsidiaries).

Finally, we agree with the IASB that expanding the scope to all SMEs would undermine the legitimacy of the *IFRS for SMEs* Standard. As the IASB explains in paragraph BC16(i), if the draft Standard could be applied by any SME, it may be seen as a competing Standard with the *IFRS for SMEs* Standard.

Insurance companies – Entities that typically have public accountability (paragraph 7)

Paragraph 7(b) states that an entity has public accountability if it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. Further, paragraph 7(b) explains that most insurance companies would meet the "*public accountability*" criterion and therefore would be excluded from applying the draft Standard.

However, according to the feedback that we have received from our constituency, insurance companies may take the view that they are not acting in a fiduciary capacity when collecting insurance premiums from customers in exchange for a contractual promise to compensate the customer if an insured event occurs. Rather, the insurance premiums collected become part of the insurance companies' total net assets and are not held in a fiduciary capacity. Furthermore, these stakeholders argue that the risk of an insurance company not being able to pay any claims is provided for by specific regulatory requirements (such as Solvency II in the EU).

For the reasons above, insurance companies in our jurisdiction believe that applying the draft Standard should also be permitted for insurance companies (provided they are not otherwise publicly accountable due to their debt or equity instruments being publicly traded in a regulated market) and that the IASB should reconsider its former decision not to permit insurance entities to apply the *IFRS for SMEs* Standard accordingly.

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 with the IASB's approach to developing the proposed reduced disclosure requirements (especially with regard to using the disclosure requirements in the *IFRS for SMEs* Standard when the recognition and measurement requirements in IFRS Standards and the *IFRS for SMEs* Standard are the same). We consider the approach adopted to be efficient, as the IASB can build on the existing disclosure requirements of the *IFRS for SMEs* Standard as well as the principles it used when originally developing the disclosure requirements in the *IFRS for SMEs* Standard.

However, we note that:

- IFRS Standards and the *IFRS for SMEs* Standard are maintained differently. The *IFRS for SMEs* Standard is updated periodically, no more frequently that every 3 years, usually after a comprehensive review.
- The latest amendment of the *IFRS for SMEs* Standard was issued in 2015.
- The IASB's objective for developing the *IFRS for SMEs* Standard was different from the objective it pursued with the ED on reduced disclosure requirements for subsidiaries, as the *IFRS for SMEs* Standard also offers significant relief on recognition, measurement and presentation requirements.

Therefore, we question whether the conclusions reached by the IASB when it originally developed (and when it, most recently in 2015, reviewed and amended) the *IFRS for SMEs* Standard are still valid (or whether the IASB might have reached to another conclusion when adopting another approach).

For example, it would also have been reasonable developing reduced disclosure requirements based on the (full) disclosure requirements in IFRS Standards and to tailor these disclosure requirements to the specific information needs of the users of financial statements of non-publicly accountable subsidiaries. This approach would have had the advantage that the reduced disclosure requirements would be derived directly from the information needs of the users of financial statements.

As the IASB itself explains in paragraphs BC87-BC91, it will need to update the draft Standard (if finalised) for any new disclosure requirements or amendment to disclosure requirements arising from new IFRS Standards or amendments to IFRS Standards issued in the future. Given that the *IFRS for SMEs* Standard is only updated periodically, the IASB will have to adopt a different approach when developing reduced disclosure requirements resulting from new IFRS Standards (or amendments to IFRS Standards). We therefore welcome and agree with the IASB's decision, that it would consider proposing amendments to the draft Standard

when it publishes an exposure draft of a new or amended IFRS Standard in the future (ref. paragraph BC91).

However, we are concerned that maintaining the draft Standard could be very costly and time-consuming. Further, consequential amendments might become necessary to align the reduced disclosure requirements in the draft Standard with the *IFRS for SMEs* Standard, e.g., if the IASB would reach to different conclusions as regards the reduced disclosure requirements during the (forthcoming) Second Comprehensive Review of the *IFRS for SMEs* Standard. Overall, there is a risk that the draft Standard could undermine the legitimacy of the *IFRS for SMEs* Standard and, due to frequent amendments and revisions, will itself suffer from low acceptance by entities.

In addition, we note that the draft Standard does not yet reflect the IASB's proposals on the future development and drafting of disclosure requirements, as recently proposed by the IASB ED/2021/3 *Disclosure Requirements in IFRS Standards – A Pilot Approach*. If the IASB finalises the proposals in the ED/2021/3, it would probably need to consequentially amend the draft Standard for non-public accountable subsidiaries. For further details, please also refer to our response in question 10 below.

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?

(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 IAS 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?

Proposed exceptions to the approach

We agree with the exceptions to the approach. In our opinion, these exceptions are necessary due to the approach adopted by the IASB when developing the reduced disclosure requirements (in particular, as the IASB uses the reduced disclosure requirements of the *IFRS for SMEs* Standard as a starting point).

However, as already explained in our response to question 3, we believe that the IASB would need to adopt a different approach in the future and – whenever publishing an exposure draft that introduces any new or amends existing disclosure requirements in IFRS Standards –

consider whether users of financial statements of a non-publicly accountable subsidiary need the same detailed information as users of publicly accountable entities (or whether any relief could be included for subsidiaries without public accountability).

Proposed simplifications to the disclosure requirements of IAS 7 on changes in liabilities from financing activities (proposed paragraphs 130, BC46)

We welcome that the IASB is proposing is a simplified version of the requirements in paragraphs 44A-44E of IAS 7 *Statement of Cash Flows*.

In our experience, in practice, entities regularly disclose a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Therefore, we do not expect that the simplification of the disclosure requirements proposed in paragraph 130 of the ED will lead to difficulties with regard to the requirement to disclose a reconciliation (and not to allow for other forms of presentation).

However, one difficulty in practice is that the disclosures on changes in liabilities from financing activities usually cannot be generated fully automatically from the ERP system, i.e., in some cases the information must be determined manually. For example, the disclosures according to paragraph 44C of IAS 7 on changes to financial assets (for example derivatives, that hedge liabilities from financing activities), if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities, usually have to be determined manually. Due to the complexity of determining the information from the perspective of preparers of financial statements, we suggest that the IASB reconsider whether disclosures on changes in liabilities from financing activities (as proposed by paragraph 130) are necessary for subsidiaries, or whether these disclosure requirements can be omitted in their entirety.

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 with the IASB’s reasoning as explained in paragraph BC58 that disclosures about the transition to a new IFRS Standard are useful for users of financial statements to understand the entity’s transition to that Standard. Therefore, we generally agree with the IASB that any disclosure requirements specified in an IFRS Standard or an amendment to an IFRS Standard about the entity’s transition to that Standard should remain applicable to an entity that applies the draft Standard.

However, we also suggest the IASB consider – when developing and drafting a new IFRS Standard – whether any relief regarding the transition disclosures are appropriate for subsidiaries within the scope of the proposed draft Standard. As the IASB would consider proposing amendments to the draft Standard when it publishes an exposure draft of a new or amended IFRS Standard (ref. paragraph BC91), we recommend the IASB also consider whether any reliefs should be included in the draft Standard regarding the transition disclosures. In other words, the IASB should not adopt the complete set of transition disclosures (of a new or amended IFRS Standard) in draft Standard without any review.

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.

Scope of entities that issue insurance contracts within the scope of IFRS 17 that would be eligible to apply the draft Standard (paragraphs BC62-BC63)

In our experience, only a few insurance entities in Germany would be eligible to apply the draft Standard, as most insurance entities would be "*public accountable*" as defined by paragraph 7 of the ED. As discussed by the IASB in paragraph BC63, only subsidiaries that insure only the risks of their parent or their fellow subsidiaries (i.e., that do not hold assets in a fiduciary capacity for a *broad group of outsiders* as one of their primary businesses), or corporate entities that have issued only a small number of insurance contracts within the scope of IFRS 17 *Insurance Contracts* would not meet the "*public accountable*" criterion and hence be eligible to apply the draft Standard. Consequently, only very few subsidiaries would be affected by the (full) disclosure requirements of IFRS 17 and the IASB's tentative decision not to propose any relief from the disclosure requirements of IFRS 17.

However, as already explained in our response to question 2 above, insurance companies from our constituency question the scope of the draft Standard being not applicable for

insurance companies and therefore recommend that the IASB reconsiders whether insurance companies should be allowed to apply the draft Standard.

The IASB's decision not to propose reduced disclosure requirements for IFRS 17 (paragraph BC64)

We do not agree with the IASB's decision not to propose reduced disclosure requirements for IFRS 17, nor its reasoning for that decision.

In our opinion, the reasons put forward by the IASB in paragraph BC64 are not conceptually convincing. In particular, the reasons presented by the IASB are not specific to IFRS 17 *Insurance Contracts* and, therefore, could equally be provided for any other new IFRS Standard. For example, the reason provided in paragraph BC64(b), that proposing reduced disclosure requirements only after entities have applied IFRS 17 for some time would allow users to increase their familiarity with the new model for insurance accounting and its effect on an entity's financial statements while allowing the IASB to assess the effectiveness of the disclosure requirements before proposing reduced disclosure requirements, would be equally valid for any other new (major) IFRS Standard that introduces a new model of accounting (such as recently IFRS 15 on revenue recognition, or IFRS 16 on lessee accounting). Furthermore, the reason presented in paragraph BC64(d) regarding the specific information needs of (insurance) regulators is also not convincing to us, as this was not cited by the IASB elsewhere throughout the draft Standard.

We are therefore concerned that the ED could establish a new principle that, if the IASB issues a new IFRS Standard (or an amendment), the complete set of the disclosure requirements of that Standard would apply (without any review) to subsidiaries within the scope of the draft Standard. Rather, we believe it is more appropriate to consider on a case-by-case basis whether the disclosure requirements introduced by a new IFRS Standard (or an amendment) could be reduced for subsidiaries.

In this context, we have rediscussed the strengths and weaknesses of the IASB's approach to developing the reduced disclosure requirements (with the disclosure requirements in the *IFRS for SMEs* Standard as a starting point). IFRS 17 clearly depicts the weaknesses of the IASB's approach to developing the proposed disclosure requirements. As the *IFRS for SMEs* Standard is updated periodically, the *IFRS for SMEs* Standard does not and cannot (yet) include any (reduced) disclosure requirements for a new IFRS Standard, nor is there any experience with regard to the effectiveness of the disclosure requirements of a new IFRS Standard. Therefore, in these cases, the IASB needs to apply a different approach in developing the reduced disclosure requirements that takes into account the specific information needs of the users of a subsidiary's financial statements.

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?

Reduced disclosure requirements for IFRS 1 (paragraph 12)

We welcome the IASB's proposal to include in the draft Standard some relief regarding the disclosure requirements of IFRS 1 *First-time Adoption of International Financial Reporting Standards*. Therefore, we agree with the IASB's decision to include reduced disclosure requirements for IFRS 1 in the draft Standard rather than leaving the disclosure requirements in IFRS 1.

Relationship between the draft Standard and IFRS 1 (paragraphs 13-14, BC84-BC86)

We agree with the IASB's proposal that – for the avoidance of doubt – the draft Standard should explain the interaction with IFRS 1. Therefore, we welcome and agree with the proposals in paragraphs 12-14 of the ED that explain that electing or revoking an election to apply the draft Standard does not, on its own, result in an entity meeting the definition of a first-time adopter of IFRS Standards in IFRS 1.

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?

As already explained in our response to question 3 above, we agree with the IASB's approach to developing the proposed disclosure requirements (in particular with regard to using the disclosure requirements of the *IFRS for SMEs* Standard when the recognition and measurement requirements in IFRS Standards and the *IFRS for SMEs* Standard are the same).

However, in light of the IASB's decision to using the disclosure requirements of the *IFRS for SMEs* Standard when the recognition and measurement requirements in IFRS Standards and the *IFRS for SMEs* Standard are the same, we do not agree with the IASB adding disclosure requirements from IFRS Standards, when there are no recognition or measurement differences. This applies, for example, to the following disclosure requirements of the draft Standard:

- paragraph 70 – disclosures about the consequences of losing control of a subsidiary during the reporting period (ref. paragraph 19 of IFRS 12),
- paragraph 136 – disclosures about the possible impact of a new IFRS Standard that has been issued but is not yet effective (ref. paragraph 30 of IAS 8), and
- paragraph 182 – disclosures of those recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32 (ref. paragraph 13C of IFRS 7).

These items of information are required to be disclosed by IFRS Standards; but not by the *IFRS for SMEs* Standard.

Furthermore, we note, in most of the situations where the IASB proposes to add disclosure requirements from IFRS Standards that are not required by the *IFRS for SMEs* Standard, the IASB's reasons for taking such an approach are not explained in the *Basis for Conclusions*. Therefore, the decisions made by the IASB – as regards to which additional disclosures requirements from IFRS Standards should be included in the draft Standard – are difficult to understand. We therefore suggest the IASB develop a table of concordance which explains any differences in the disclosure requirements between the *IFRS for SMEs* Standard and the draft Standard and its reasoning for that decision.

Regarding the future maintenance of the draft Standard, we believe that the IASB should limit the extent of any differences between the disclosure requirements of the *IFRS for SMEs* Standard and the draft Standard for subsidiaries as much as possible (especially when the recognition and measurement requirements in IFRS Standards and the *IFRS for SMEs* Standard are the same). This applies in particular to the forthcoming *Second Comprehensive Review* of the *IFRS for SMEs* Standard.

On the other hand, we note that the draft Standard would significantly reduce the disclosure requirements applicable to subsidiaries (when compared to the full disclosure requirements of IFRS Standards). This refers in particular to the disclosure requirements according to IFRS 7, IFRS 12, IFRS 13 and IAS 19. We believe that this would provide significant relief for those subsidiaries that are eligible to apply the draft standard.

With regard to the question of whether any other additional disclosure requirements from IFRS Standards should remain applicable for an entity that applies the draft Standard (question 8(c)), we note that information about liquidity risk is missing in the draft Standard. As we consider information about liquidity risk is useful to users of a subsidiary's financial statements, we therefore recommend the IASB require subsidiaries to disclose information about liquidity risk.

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 do not agree with the proposed structure of the draft Standard. We believe that the proposed structure of the draft Standard is not very user-friendly and poses a risk that subsidiaries might overlook and pass some disclosure requirements when preparing financial statements in accordance with the proposed new IFRS Standard.

In particular, we consider that:

- referring by footnotes to disclosure requirements in other IFRS Standards that remain applicable, and
- listing in Appendix A those requirements in other IFRS Standards that are replaced by the disclosure requirements of the draft Standard

is not very practical nor user-friendly. We would have preferred the IASB reorganise the (disclosure) requirements applicable to subsidiaries in a comprehensive and exhaustive manner, instead of referring by footnotes to the disclosure requirements in other IFRS Standards that continue to apply. Therefore, we recommend the IASB reorganise the disclosure requirements and develop a "*bound volume*" that would contain all the requirements (including recognition, measurement, and presentation requirements) applicable to subsidiaries (within the scope of the draft Standard). The advantage of such an approach would be that all relevant requirements (recognition, measurement, and disclosure requirements) would be combined in a single document (i.e., a "*one stop shop*"). We believe that such an approach would make it much easier for subsidiaries to apply IFRS Standards including the draft Standard with reduced disclosure requirements.

One opportunity to undertake such a recompilation of the disclosure requirements applicable for subsidiaries on the one hand and the recognition and measurement requirements of IFRS Standards on the other hand could be if the IASB were to consider developing an IFRS Taxonomy for the disclosure requirements of the draft standard. Against the background of the increasing importance of electronic reporting (especially in Europe), the IASB may be called upon to develop an IFRS Taxonomy for subsidiaries within the scope of the draft Standard (if the IASB finalises the proposals in the Exposure Draft and issues the draft 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)?

Interaction with the IASB ED/2021/3 Disclosure Requirements in IFRS Standards – A Pilot Approach

We note that the IASB has published another ED from the Disclosure Initiative, i.e., IASB ED/2021/3 *Disclosure Requirements in IFRS Standards - A Pilot Approach*, in which the IASB adopted a different approach to developing and drafting disclosure requirements in IFRS Standards. We note that that approach is quite different from the approach to developing disclosure requirements currently adopted by the IASB in the ED/2021/7 *Subsidiaries without Public Accountability: Disclosures*.

We therefore wonder whether and how the outcome of the *IASB ED/2021/3 Disclosure Requirements in IFRS Standards – A Pilot Approach* (if the IASB finalises the proposals, including the Draft Guidance for the IASB) would affect the proposals in the draft Standard for subsidiaries without public accountability. As an alternative, for example, the IASB could have also considered developing disclosure objectives for subsidiaries without public accountability, on the basis of which subsidiaries would need to determine which information would need to be disclosed to comply with users' information needs described by a disclosure objective.