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18 February 2022

International Accounting Standards Board
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Board Members,

RESPONSE TO EXPOSURE DRAFT – SUBSIDIARIES WITHOUT PUBLIC ACCOUNTABILITY: DISCLOSURES ("ED")

For this ED, ISCA sought views from its members through a four-month public consultation and from the ISCA Financial Reporting Committee which comprises experienced technical professionals from audit firms, preparers of financial statements and other stakeholders.

Although we appreciate the Board's efforts to develop a new IFRS Standard with reduced disclosure requirements for eligible subsidiaries without public accountability to help them save costs while maintaining the relevance and usefulness of the financial statements to users, we have received mixed views regarding the practicability of the proposed Standard.

We set out below the potential benefits we envisage (in addition to those highlighted in the ED), followed by our concerns on the proposed Standard for the Board's consideration.

Potential benefits

(i) Aid parent in having better control over subsidiaries in terms of information retention and record keeping

We understand that certain jurisdictions do not require subsidiaries to produce financial statements for statutory reporting purposes if the parent has produced financial statements available for public use. Although this has its merits, having IFRS-compliant financial statements, albeit with reduced disclosures, prepared by those subsidiaries (as compared to only having the subsidiaries submit a group reporting package to the parent) will be more beneficial to the parent in terms of information retention and record keeping. There will be a proper set of financial statements prepared using the proposed Standard for the parent's reference. This will also avoid the subsidiaries having to prepare financial statements with full disclosures.

(ii) Benefit subsidiaries which are not required to submit group reporting packages but are required to prepare statutory financial statements

The proposed Standard will benefit subsidiaries which are not required to collate and provide information under IFRSs for group reporting purposes (i.e. insignificant subsidiaries to the parent) but are required under local laws and regulations to prepare financial statements for statutory reporting purposes. If the Standard is adopted, these subsidiaries can prepare IFRS-compliant financial statements with reduced disclosures which commensurate with their lower risk profile.

Concerns

(i) Potential low adoption rate

The eligible subsidiaries already have systems and processes in place to apply the recognition and measurement principles, meet the requirements in IFRS Standards and collate the required information for reporting to their parent for purposes of the consolidated financial statements. There is little incremental cost to these subsidiaries to disclose the same information in their financial statements. Hence, there is no incentive for them to change and this may result in low adoption rate of the proposed Standard.

(ii) Narrow eligibility scope

We believe that the new proposed Standard will benefit more entities if the scope is widened to include all entities without public accountability for the reasons set out under the "Alternative view of Ms Francoise Flores on the ED". Expanding the scope to allow more entities to use the proposed Standard will be similar to the Simplified Disclosure Framework[1] in Australia.

(iii) Additional information disclosed may not be useful or relevant to users of financial statements belonging to subsidiaries that cease to be eligible at the end of the reporting period

If an entity ceases to be a subsidiary at the end of the reporting period, it will not be eligible to apply this ED's proposals for that reporting period. As highlighted in paragraph AV8 of the Basis for Conclusions, eligibility restrictions can force an entity to change its disclosure regime (when its economic conditions and users' needs remained unchanged) solely because of a change in control or a change in its parent's accounting policy. In such instances, the entity will be "forced" to provide full set of IFRS disclosures at short notice. Not only will this be a costly exercise, it may also result in an inefficient use of resources as the additional information disclosed may not be useful or even relevant to users. This will run contrary to the Board's intent to provide more useful and relevant information to users.

(iv) Result in two different approaches to disclosures within IFRSs

The focus of this ED is on having a list of simplified prescriptive disclosures for eligible subsidiaries whereas the focus of another ED *Disclosure Requirements in IFRS Standards – A Pilot Approach (Proposed amendments to IFRS 13 and IAS 19)* is on defining specific disclosure objectives to be met. If both EDs are to be finalised in their current form, we are concerned that this will lead to two different approaches to disclosures within IFRSs which may not be ideal going forward.

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[1] The Simplified Disclosure Framework is applicable to all 'Tier 2' entities (see below) preparing general purpose financial statements. The Simplified Disclosure Framework may be applied by the ultimate parent entity in a consolidated group and not just subsidiaries as proposed in the ED.

'Tier 2' entities comprise:

- For-profit private sector entities that do not have public accountability (e.g. large proprietary companies)
- Not-for-profit private sector entities (e.g. charities reporting to the Australian Charities and Not-for-Profits Commission, sporting clubs, etc.)
- Public sector entities (for-profit and not-for-profit) other than the Australian Government, State, Territory and Local Governments.
- Tier 2 entities are required to comply with all recognition and measurement requirements of Australian Accounting Standards, but are permitted to provide a reduced level of disclosures.

Should you require any further clarification, please feel free to contact Ms Felicia Tay at felicia.tay@isca.org.sg or Ms Jezz Chew at jezz.chew@isca.org.sg.

Yours faithfully,

Mr Wai Geat, KANG
Director
Professional Standards Division