Organismo Italiano di Contabilità – OIC
(The Italian Standard Setter)
Italy, 00187 Roma, Via Poli 29
Tel. 0039/06/6976681 fax 0039/06/69766830
e-mail: presidenza@fondazioneoic.it

International Accounting Standards Board

Columbus Building
7 Westferry Circus Canary Wharf
London E14 4HD
United Kingdom commentletters@ifrs.or

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Re: ED/2021/7 Subsidiaries without Public Accountability: Disclosures

Dear Mr Barckow,

We are pleased to have the opportunity to provide our comments on the Exposure Draft ED/2021/7 *Subsidiaries without Public Accountability: Disclosures,* issued by the IASB on 26July 2021 (the 'ED')

In general, we support the ED and the IASB's efforts to develop a set of reduced disclosures for subsidiaries without public accountability. We believe that the ED may save costs for preparers without a significant impact on the usefulness of financial statements to the users.

We provide below our comments on the IASB's proposals.

Objective and scope

We agree with the proposed objective to permit eligible subsidiaries to apply the disclosure requirements in the ED and the recognition, measurement and presentation requirements in IFRS Standards. In Italy many entities apply IFRS in preparing their separate financial statements, so the population of subsidiaries that may be affected from this project is potentially significant.

We also support the IASB's proposed scope. We agree with the IASB's argument in paragraph BC16(a) of the Basis for Conclusions that the proposed scope is consistent with the feedback from stakeholders about the need for reduced disclosure requirements for subsidiaries whose parent prepares consolidated financial statements applying IFRS Standards. Moreover, the ED scope ensures that the full IFRS significant disclosure are, anyway, in the consolidated financial statement of the parent.

Proposed disclosure requirements

In general, we support the disclosures required by the ED. However, we suggest the IASB to consider the additional disclosures included in the Appendix A, that in our view may be useful for users of financial statements and would not increase significantly the costs for preparers.

We set out detailed comments and responses to the questions in the ED in the Appendix A.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,

Angelo Casò
(Chairman)

Appendix A - OIC's responses to the questions raised 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?

We agree with the proposed objective of the ED, because it permits to subsidiaries without public accountability to apply the recognition, measurement and presentation requirements in IFRS Standards and the proposed reduced disclosure requirements. This approach in our view may reduce costs for subsidiaries to prepare IFRS financial statements and provide useful information to users of these financial statements.

In Italy many entities apply IFRS Standards to prepare their consolidated and separate financial statements, consequently a large number of entities may benefit of the proposed reduced disclosures.

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 IASB'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 agree with IASB's proposed scope to apply the ED to subsidiaries without public accountability. This is because, we agree with the IASB's argument in paragraph BC16(a) of the Basis for Conclusions that the proposed scope responds to stakeholders' feedback to reduce disclosure requirements for subsidiaries whose parent prepares consolidated financial statements applying IFRS Standards. The ED scope ensures that the full IFRS significant disclosures are, anyway, in the consolidated financial statement of the parent.

We also support the approach in paragraph BC16(f) of the Basis for Conclusions that the IASB should first test its new approach with subsidiaries without public accountability and subsequently, after the application of the proposed disclosure requirements, consider whether the scope can be widened.

Question 3 – Approach to developing the proposed disclosure requirements

Paragraphs BC23–BC39 of the Basis for Conclusions explain the IASB'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 consider the IFRS for SMEs as a starting point for developing the proposed disclosure requirements. This is because the disclosure requirements of the IFRS for SMEs have already been assessed by the IASB as suitable for entities without public accountability, and thus are appropriate when recognition and measurement requirements are the same in both IFRS Standards and the IFRS for SMEs Standard.

Question 4 – Exceptions to the approach

Paragraphs BC40–BC52 of the Basis for Conclusions explain the IASB'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 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?

In general, we agree with the proposed exceptions and we welcome that the IASB has included in the Basis for Conclusions a section to explain those exceptions.

We agree with the decision to omit disclosure objectives from the ED, because in our view the inclusion of disclosures objective may increase the amount of judgement and thus may increase costs for preparing financial statements.

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 IASB'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 this proposal.

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 IASB'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.

Regarding question (b) we observe that currently in Italy non-listed insurance companies shall prepare annual accounts according to national accounting principles, so we expect a very limited number of entities that issue insurance contracts within the scope of IFRS 17 that are eligible to apply the ED.

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 IASB'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.

(c) 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.

(d) 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?

We agree with these proposals. However, we suggest the IASB to clarify in the body of the final standard that the use the of reduced-disclosure IFRS is not considered a change in an accounting policy in accordance with IAS 8**.**

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?

We suggest the IASB to consider the additional disclosures listed below, that, in our view, may be useful for users and would not increase significantly the costs for preparers:

- IFRS 3 – We suggest adding disclosure requirements about:
  - (a) the primary reasons for the business combination;
  - (b) amounts recognised in the financial statements for the business combination that have been determined provisionally (if a business combination is not finalised at the end of the reporting period);
  - (c) any gain or loss recognised as a result of remeasuring to fair value the equity interest in a business combination achieved in stages.
- IFRS 12 – We suggest requiring disclosure about the composition of a group and the consolidated and unconsolidated entities (when a subsidiary is a sub-holding).
- IAS 27 – In the separate financial statement of a subsidiary, we suggest requiring disclosure about significant investments in subsidiaries, joint ventures and associates, including:

  (a) the name of those investees;

  (b) the principal place of business (and country of incorporation, if different) of those investees; and

  (c) its proportion of the ownership interest (and its proportion of the voting rights, if different) held in those investees.
- IAS 36 – We suggest adding disclosure requirements about calculation of recoverable amount, in particular:

  (a) the period over which management has projected cash flows based on financial budgets/forecasts approved by management;

  (b) the growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/ forecasts; and

  (c) the discount rate(s) applied to the cash flow projections.

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 with the IASB's approach that ensures a stand-alone reduced-disclosure IFRS Standard focused on the disclosure for subsidiaries without public accountability.

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 do not have any other comments.