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

Dear IASB members,

**Re: Subsidiaries without Public Accountability: Disclosures (ED/2021/7)**

This letter is the response of the [Canadian Accounting Standards Board](http://www.frascanada.ca) (AcSB) to the International Accounting Standards Board's (IASB) Exposure Draft, "*Subsidiaries without Public Accountability: Disclosures*" (ED) issued in July 2021.

**Our process**

This response letter represents the views of the AcSB members and staff based on their knowledge and experience. In developing our response, we leveraged learnings from outreach activities and comment letters received in response to our [Draft Strategic Plan for 2022-2027](#). Our Draft Strategic Plan for 2022-2027 focuses on the objective of enhancing relevance of information reported to stakeholders and includes a proposal to explore scaling our domestic standards for entities without public accountability to better meet the needs of Canadian reporting entities and their users.

Our response does not seek to address all the questions posed in the ED. Instead, this letter focuses on the proposed scope of the draft Standard.

**Our view**

The AcSB supports the IASB's proposed objective to permit eligible subsidiaries to apply reduced disclosure requirements with the recognition, measurement, and presentation requirements in IFRS® Standards. We think the proposals have the potential to reduce the cost of reporting for these entities while maintaining

the usefulness of the financial statements. However, we think the IASB should consider widening the scope of the draft proposals as they could benefit a wider group of stakeholders. We have included specific comments on widening the scope below.

#### *Canadian landscape*

In Canada, there is not a statutory requirement for entities without public accountability to issue financial statements prepared in accordance with IFRS Standards or another reporting framework. However, some provinces may require certain entities to be audited, which results in a need to apply an accounting framework. For many entities there is not a requirement by law, although a user such as a creditor or investor, may require it. In accordance with the CPA Canada Handbook - Accounting, an entity without public accountability could apply either our Canadian domestic accounting standards [Accounting Standards for Private Enterprises (ASPE)] or IFRS Standards in the preparation of their financial statements. The *IFRS for SMEs* Standard has not been adopted in Canada.

For Canadian subsidiaries without public accountability that report to a parent presenting consolidated financial statements applying IFRS Standards, using ASPE may not be desirable because, like the *IFRS for SMEs* Standard, there are some significant recognition and measurement differences between ASPE and IFRS Standards (e.g., in areas such as leases and revenue). In some cases, a subsidiary may report to their parent in accordance with IFRS Standards and issue their own financial statements in accordance with ASPE because the disclosure requirements under ASPE are less onerous. Therefore, we think for eligible subsidiaries, the draft Standard as proposed will save costs and avoid the need to maintain separate accounting records.

The landscape of reporting entities in Canada also includes global entities with foreign subsidiaries. In some foreign jurisdictions, subsidiaries have a statutory reporting requirement to issue their own financial statements in accordance with IFRS Standards. We think the proposal would benefit Canadian global entities as well by reducing the cost and complexity of reporting for their subsidiaries by allowing the preparation of their own financial statements with reduced disclosure requirements, while meeting the reporting needs of the Canadian parent company.

#### *Specific comments on how to widen scope*

We think the scope of the draft Standard should be broadened to include all entities without public accountability, not only those that are subsidiaries.

As noted above, in Canada, entities without public accountability have the choice to apply ASPE or IFRS Standards. In our outreach with stakeholders on our 2022-2027 Draft Strategic Plan, we heard that there are scenarios for entities without public accountability in which ASPE may not be meeting users' needs, but that IFRS Standards are too onerous due to the disclosure requirements. Examples of these scenarios include private enterprises with peers that are publicly accountable enterprises that report under IFRS

Standards, or private enterprises considering, but not in the process of, issuing debt or equity in a public market in the future. The proposals could better meet the needs of these types of private enterprises and allow them to adopt IFRS Standards more easily. This could result an increased use of IFRS Standards in Canada.

We think the availability of a reduced disclosure IFRS Standard as proposed would complement the existing frameworks available to entities without public accountability. In Canada, entities without public accountability and their users can vary widely in terms of size and complexity, with some preferring a framework that is converged with IFRS Standards. The availability of the proposals would better meet the needs of those entities without public accountability that would prefer a framework that is closely aligned with IFRS Standards but with reduced disclosure requirements.

We note that as the draft Standard is optional, an entity would still have the option to apply the full disclosure requirements in IFRS Standards if desired. However, broadening the scope to include other types of entities without public accountability would allow them to decide what best meets their needs and the needs of their users.

We also note that in some industries (e.g., the insurance industry) there are global entities with branches in foreign jurisdictions where local regulations require branch financial statements prepared in accordance with IFRS Standards. Like subsidiaries, branches would also benefit from the proposals in the draft Standard by reducing the cost and complexity of preparing the branch financial statements.

While we understand the initial request to the IASB from the *Request for Views – 2015 Agenda Consultation* was in respect of subsidiaries with parents presenting consolidated financial statements applying IFRS Standards, we encourage the IASB to work with other standard setters to better understand the broader group that could benefit from the proposals in the draft Standard.

#### *Disclosure requirements about insurance contracts*

We think the draft Standard should include reduced disclosure requirements for insurance contracts within the scope of IFRS 17 *Insurance Contracts*. The disclosure requirements in IFRS 17 are expected to be onerous for some entities, and reduced disclosure could reduce the cost of reporting while meeting users' needs.

As many entities that issue insurance contracts within the scope of IFRS 17 also hold assets in a fiduciary capacity, they would not be eligible to apply the draft Standard as they are considered publicly accountable. While we recognize that the proposals in the draft Standard were not developed with these entities in mind, we think there are scenarios when entities that hold assets in a fiduciary capacity (e.g., branches of global insurance entities) could benefit from reduced disclosure requirements. We encourage the IASB to consider scenarios such as this as the standards evolve to provide cost-effective, global solutions to stakeholders.

## Next steps

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me or, alternatively, Katharine Christopoulos, Director, Accounting Standards (+1 416 204-3270 or email [kchristopoulos@acsbcanada.ca](mailto:kchristopoulos@acsbcanada.ca)), or Danielle MacLeod, Principal, Accounting Standards (+1 416 204-3951 or email [dmacleod@acsbcanada.ca](mailto:dmacleod@acsbcanada.ca)).

Yours truly,



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### About the Canadian Accounting Standards Board

We are an independent body with the legal authority to establish accounting standards for use by all Canadian publicly accountable enterprises, private enterprises, not-for-profit organizations and pension plans in the private sector. We are comprised of a full-time Chair and volunteer members from a variety of backgrounds, including financial statement users, preparers, auditors and academics; a full-time staff complement supports our work.

### Our standards

We have adopted IFRS<sup>®</sup> Standards as issued by the IASB for publicly accountable enterprises. Canadian securities legislation permits the use of U.S. GAAP in place of IFRS Standards in certain circumstances. We support a shared goal among global standard setters of high-quality accounting standards that result in comparable financial reporting outcomes regardless of the GAAP framework applied.

We developed separate sets of accounting standards for private enterprises, not-for-profit organizations and pension plans. Pension plans are required to use the applicable set of standards. Private enterprises and not-for-profit organizations can elect to apply either the set of standards developed for them, or IFRS Standards as applied by publicly accountable enterprises.

### Our role vis-à-vis IFRS Standards

Our responsibility to establish Canadian GAAP necessitates an endorsement process for IFRS Standards. We evaluate and rely on the integrity of the IASB's due process as a whole, and monitor its application in practice. In addition, we perform our own due process activities for each new or amended IFRS Standard to ensure that the standard is appropriate for application in Canada. We reach out to Canadians on the IASB's proposals to understand and consider their views before deciding whether to endorse a final IFRS Standard. A final standard is available for use in Canada only after we have endorsed it as Canadian GAAP.