EFRAG
Financial reporting

[Draft] Comment Letter

You can submit your comments on EFRAG's draft comment letter by using the 'Express your views' page on EFRAG's website, then opening the relevant news item and clicking on '[Submit your comments]' at the end of the news item.

Comments should be submitted by 13 November 2024.

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

[XX November 2024]

Dear Mr Barckow,

Re: Exposure Draft Amendments to IFRS 19 *Subsidiaries without Public Accountability: Disclosures*

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the IASB's Exposure Draft Amendments to IFRS 19 *Subsidiaries without Public Accountability: Disclosures* issued by the IASB on 30 July 2024 (the 'ED').

This letter is intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of definitive IFRS Accounting Standards in the European Union and European Economic Area.

EFRAG supports the IASB's approach to updating IFRS 19 *Subsidiaries without Public Accountability: Disclosures* with all the new and amended disclosures proposed in the IFRS Accounting Standards issued between February 2021 and May 2024.

EFRAG supports the IASB's proposals aimed at updating the disclosure requirements in IFRS 19 related to the following aspects.

- *Presentation and disclosure in financial statements* – EFRAG agrees with the IASB proposal to retain the disclosure requirements in IFRS 19 relating to IFRS 18 (except for a few exceptions made). In addition, EFRAG supports removing from IFRS 19 the disclosure requirements for management-defined performance measures and including a direct cross-reference to the IFRS 18 requirements.

- *Supplier finance arrangements* – EFRAG agrees with the proposed limited reduction and the respective amendments to the disclosure requirements in IFRS 19. EFRAG considers that the removal of the disclosure objective in paragraph 167 of IFRS 19 and the reference to it in paragraph 168 of IFRS 19 is in line with the principles for developing reduced disclosures for the IFRS 19 standard.
- *International tax reform – Pillar Two model rules* – EFRAG agrees to retain the disclosure requirements in IFRS 19 relating to the amendments to IAS 12 International Tax Reform – Pillar Two Model Rules, and to remove the disclose objective in paragraph 198 of IFRS 19 and the reference to it in paragraph 199 of IFRS 19. Both reductions meet the principles for developing reduced disclosure requirements as described in paragraph BC33 of the *Basis for Conclusions* on IFRS 19.
- *Lack of exchangeability* – EFRAG agrees to remove the disclosure objective in paragraph 221 of IFRS 19 but retain the detailed requirements in paragraph 223 of IFRS 19. EFRAG considers that this amendment to IFRS 19 is consistent with the principles for developing reduced disclosure requirements and would provide relevant information about measurement uncertainties and accounting policy choices to users of financial statements. However, EFRAG considers that the disclosures required under paragraph 224 of IFRS 19 are quite detailed and that the IASB should explain better its rationale for including them in IFRS 19.
- *Financial instruments classification and measurement* – EFRAG agrees with the IASB's proposal not to reduce the disclosure requirements related to financial instruments with contractual terms that could change the amount of contractual cash flows as a result of a contingent event (amendments to IFRS 7). This information could provide users of financial statements with useful information about eligible subsidiaries' short-term cash flows and obligations as well as their solvency and liquidity.
- *Regulatory assets and regulatory liabilities* – EFRAG supports the IASB's proposal not to develop reduced disclosures for the prospective *Regulatory Assets and Regulatory Liabilities* Standard at this stage of the project. EFRAG concurs with the IASB that there are potential benefits to delaying any potential reduced disclosure requirements, allowing sufficient time to both preparers and users of financial statements to become familiar with the new accounting model for rate-regulated entities and the new disclosure requirements that support it.

Lastly, EFRAG also notes that the timing for the finalisation of the amendments to IFRS 19 is important. EFRAG observes that the ED does not include an effective date and transition requirements for the proposed amendments to IFRS 19 requirements. EFRAG suggests that the publication of the amendments would be most helpful if completed before the implementation process of IFRS 19 starts. Preparers wishing to apply IFRS 19 would welcome the opportunity to implement updated IFRS 19 disclosure requirements and not having to make further changes to their reporting processes and systems shortly after the implementation of IFRS 19. In addition, the timing of the publication of the amendments to IFRS 19 might have an impact on the endorsement process of the IFRS 19 Standard itself.

EFRAG's detailed comments and responses to the questions in the ED are set out in Appendix 1.

If you would like to discuss our comments further, please do not hesitate to contact Kathrin Schöne, Ioana Kiss or me.

Yours sincerely,

Wolf Klinz

President of the EFRAG FRB

Appendix 1 – EFRAG's responses to the questions raised in the ED

Introduction

1 On 9 May 2024, the IASB published its Standard IFRS 19 *Subsidiaries without Public Accountability: Disclosures*. IFRS 19 applies the recognition, measurement and presentation requirements in other IFRS Accounting Standards except for the disclosure requirements. The disclosure requirements in IFRS 19 are a reduced version of the disclosures included in the issued IFRS Accounting Standards as of 28 February 2021.

2 The reduced disclosures in IFRS 19 were established based on the principles for developing reduced disclosure requirements described in paragraph BC33 of the *Basis for Conclusions* on IFRS 19. The changes to the existing disclosures in the issued IFRS Accounting Standards were made on two levels:

(a) at a detailed level – reducing disclosures to include information about:

(i) short-term cash flows and obligations;

(ii) liquidity and solvency;

(iii) measurement uncertainties;

(iv) disaggregation of information presented in the financial statements;

(v) accounting policy choices; and

(b) at a high level – considering whether newly added or amended disclosure requirements would be proportional and allow to be reduced while meeting the needs of users of the financial statements of eligible subsidiaries.

3 When IFRS 19 was published, all disclosure requirements in new or amended IFRS Accounting Standards issued between 28 February 2021 and 1 May 2024 were included in the IFRS 19 standard without reducing those requirements because the IASB had not consulted on potential reductions.

4 For the purposes of updating the disclosure requirements in IFRS 19 with all the new or amended IFRS Accounting Standards issued between February 2021 and May 2024, the IASB published the ED Amendments to IFRS 19 *Subsidiaries without Public Accountability: Disclosures* ('the ED').

5 In addition, in the ED the IASB is seeking views on whether to reduce the disclosure requirements from the prospective IFRS Accounting Standard *Regulatory Assets and Regulatory Liabilities* (prospective RARL Standard).

6 After finalising the amendments from this ED, the IASB's approach to maintaining IFRS 19 is to include consequential amendments to IFRS 19 for each new or amended IFRS Accounting Standard, setting out reduced disclosure requirements as appropriate. Each Exposure Draft to be published will include a chapter for potential amendments to IFRS 19 (similar to the recently published ED *Business Combinations – Disclosures, Goodwill and Impairment*) to consult on disclosure requirements for subsidiaries without public accountability.

Question 1 – Presentation and disclosure in financial statements

Notes to constituents – Summary of proposals in the ED

7 *The IASB published IFRS 18* Presentation and Disclosure in Financial Statements *on 9 April 2024. IFRS 18 carries forward some of the requirements in IAS 1* Presentation of Financial Statements *and introduces new presentation and disclosure requirements mainly related to the structure of the statement of financial performance, disclosures about management-defined performance measures and enhanced requirements on aggregation and disaggregation of information. IFRS 18 is effective for annual periods beginning on or after 1 January 2027.*

8 *The new disclosure requirements in IFRS 18 were included in full in IFRS 19 (paragraphs 137, 142-159 and 163 of IFRS 19).*

9 *The IASB had already considered how to reduce the disclosure requirements from IAS 1 when developing IFRS 19; therefore, no reconsideration for the disclosure requirements taken over from IAS 1 into IFRS 18 is required. However, the amendments to IAS 1 relating to non-current liabilities with covenants were included in IFRS 19 without reduction (paragraph 137 of IFRS 19). In the ED, the IASB proposes to amend the requirements so that they do not include a disclosure objective, which is in line with the approach for reducing disclosure requirements elsewhere in IFRS 19.*

10 *The ED consults about the changed and additional disclosure requirements introduced by IFRS 18. The ED proposes not to reduce the disclosure requirements introduced by IFRS 18 except for removing the disclosure objectives. In addition, the ED proposes removing the requirements relating to management-defined performance measures (paragraphs 142-159 and 163 of IFRS 19) as subsidiaries might not use management performance measures in their public communication. Instead, the ED proposes making a cross-reference directly to the requirements as defined in IFRS 18. Therefore, if an entity uses management-defined*

performance measures, it is only then required to apply the related disclosure requirements in IFRS 18.

Question 1 – Presentation and disclosure in financial statements (proposed amendments to paragraphs 137, 142–159 and 163 of IFRS 19, paragraph A3 in Appendix A of IFRS 19 and paragraph B8 of Appendix B of IFRS 19)

The IASB is proposing to retain the disclosure requirements in IFRS 19 relating to IFRS 18. The only substantial change proposed is to remove from IFRS 19 the requirements relating to management-defined performance measures. Instead, an eligible subsidiary that uses management-defined performance measures as defined in IFRS 18 would be required to apply the related disclosure requirements in IFRS 18. The IASB is also proposing to remove the disclosure objective in paragraph 137 of IFRS 19 relating to non-current liabilities with covenants.

Paragraphs BC6–BC13 of the Basis for Conclusions on the Exposure Draft explain the IASB's rationale for this proposal.

Do you agree with the proposal to remove from IFRS 19 the requirements for management-defined performance measures and to require an eligible subsidiary to disclose information about these measures if it uses them? If you disagree with this proposal, please explain your reasons.

Are there any other disclosure requirements in IFRS 18 that, in your view, are not applicable to eligible subsidiaries and should therefore be removed from IFRS 19? If so, please specify the disclosure requirements and explain your reasons.

Do you agree that, following the removal of the disclosure objective in paragraph 137 of IFRS 19, the remaining requirements relating to non-current liabilities with covenants are sufficient and clear? [Emphasis by EFRAG]

EFRAG's response

EFRAG supports the IASB's proposal to retain the disclosure requirements in IFRS 19 relating to IFRS 18 (except for the few exceptions made). In addition, EFRAG suggests removing from IFRS 19 the disclosure requirements for management-defined performance measures and including direct cross-reference to the IFRS 18 requirements. EFRAG considers this approach useful when a limited population of eligible subsidiaries under IFRS 19 applies the disclosures without the lengthy reproduction of IFRS 18 requirements.

EFRAG also supports the removal of the disclosure objective in paragraph 137 of IFRS 19. EFRAG considers that elaboration of the remaining disclosure requirements related to non-current liabilities with covenants is sufficiently clear.

11 EFRAG supports the IASB's proposal aimed at retaining the disclosure requirements in IFRS 19 relating to IFRS 18 (except for the few exceptions made). IFRS 18 sets out fundamental requirements for the understanding of the financial information prepared.

12 EFRAG supports the IASB's proposal to remove from IFRS 19 the disclosure requirements for management-defined performance measures and instead include cross-reference to IFRS 18 requirements. This would allow eligible subsidiaries that already provide information about such measures to continue doing so without reproducing the IFRS 18 requirements in the IFRS 19 standard.

13 EFRAG observes that the IASB used a similar approach for eligible subsidiaries applying IFRS 19 that are not required to provide segment information; however, if they choose to do so, they are required to comply with the disclosure requirements in IFRS 8 *Operating Segments* in full.

14 EFRAG considers that the removal of the disclosure objective in paragraph 137 of IFRS 19 and the elaboration of the remaining disclosure requirements related to non-current liabilities with covenants is sufficiently clear.

Question 2 – Supplier finance arrangements

Notes to constituents – Summary of proposals in the ED

15 *In May 2023, the IASB published the amendments to IAS 7* Statement of cash flows *and IFRS 7* Financial Instruments: Disclosures *requiring an entity to provide additional disclosures about its supplier finance arrangements. The amendments are effective for annual periods beginning on or after 1 January 2024.*

16 *The new disclosure requirements in IAS 7 were included in full in paragraphs 167–168 of IFRS 19.*

17 *In the ED, the IASB proposes to reduce the requirements by only removing from IFRS 19 the disclosure objective related to supplier finance arrangements (paragraph 168 of IFRS 19) and to add the description of supplier finance arrangements proposed in paragraph 167A of the ED to give context to the respective disclosure requirements.*

18 *Considering the principles for reducing disclosures requirements, the IASB does not propose to make any changes related to IFRS 7 amendments as the requirements form part of the (implementation) guidance in IFRS 7.*

Question 2 – Supplier finance arrangements (proposed amendments to paragraphs 167–168 of IFRS 19)

The IASB is proposing to retain the disclosure requirements in IFRS 19 relating to supplier finance arrangements, with some amendments.

The IASB proposes to delete the disclosure objective previously included in paragraph 167 of IFRS 19, consistent with its decision not to include disclosure objectives in IFRS 19. It also proposes:

(a) to add a new paragraph, paragraph 167A, which would include the description of supplier finance arrangements from paragraph 44G of IAS 7; and

(b) to amend paragraph 168 of IFRS 19 to remove the reference to the disclosure objective.

Paragraphs BC14–BC17 of the Basis for Conclusions on the Exposure Draft explain the IASB's rationale for these proposals.

Do you agree that including explanatory text in paragraph 167A would be helpful to eligible subsidiaries that elect to apply IFRS 19? Please explain your reasons.

Are there any other disclosure requirements that should be removed from IFRS 19? Please explain your reasons. [Emphasis by EFRAG]

EFRAG's response

EFRAG agrees with the proposed limited reduction and the respective amendments to the disclosure requirements in IFRS 19 relating to supplier finance arrangements.

EFRAG considers that the removal of the disclosure objective in paragraph 167 of IFRS 19 and the reference to it in paragraph 168 of IFRS 19 is in line with the principles for developing reduced disclosures for the IFRS 19 Standard.

EFRAG also supports the inclusion of the description of supplier finance arrangements in paragraph 167A of IFRS 19 as it would provide clarity to the disclosure requirements related to supplier finance arrangements.

19 EFRAG agrees with the proposed limited reduction and the respective amendments to the disclosure requirements in IFRS 19 relating to supplier finance arrangements. Users have expressed their views that information about entities entering into such type of transactions may have an impact on their short-term cash flows and consequently their liquidity. Therefore, EFRAG supports the IASB's view that all the new disclosure requirements in IAS 7 are necessary to meet the information needs of users of financial statements.

20 EFRAG considers that the removal of the disclosure objective in paragraph 167 of IFRS 19 and the reference to it in paragraph 168 of IFRS 19 is in line with the principles for developing reduced disclosures for the IFRS 19 Standard.

21 EFRAG also supports the inclusion of the description of supplier finance arrangements in paragraph 167A of IFRS 19. In EFRAG's view, this would provide clarity to the disclosure requirements related to supplier finance arrangements.

Question 3 – International Tax Reform – Pillar Two Model Rules

Notes to constituents – Summary of proposals in the ED

22 *In May 2023, the IASB published amendments to IAS 12 Income Taxes related to International Tax Reform—Pillar Two Model Rules, introducing:*

(a) *a temporary exception to the requirements to recognise and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes; and*

(b) targeted disclosure requirements for affected entities.

23 *The amendments became effective immediately.*

24 *In the ED, the IASB proposes to remove only the disclosure objective in paragraph 198 of IFRS 19 and the reference to it in paragraph 199 of IFRS 19 in line with the IASB's decision not to use disclosure objectives in IFRS 19.*

> **Question 3 – International Tax Reform – Pillar Two Model Rules (proposed amendments to paragraphs 198–199 of IFRS 19)**
>
> The IASB is proposing to retain the disclosure requirements in IFRS 19 relating to the amendments to IAS 12 that introduced:
>
> (a) a temporary exception to the requirements for recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes; and
>
> (b) targeted disclosure requirements for affected entities.
>
> The only proposed change is to remove paragraph 198 of IFRS 19 and the reference to a disclosure objective in paragraph 199 of IFRS 19.
>
> Paragraphs BC18–BC21 of the Basis for Conclusions on the Exposure Draft explain the IASB's rationale for this proposal.
>
> **Do you agree that, following the removal of reference to the disclosure objective, the disclosure requirements in paragraphs 196–199 of IFRS 19 are sufficient and clear? Please explain your reasons.** [Emphasis by EFRAG]

EFRAG's response

> **EFRAG supports retaining the disclosure requirements in IFRS 19 relating to the amendments to IAS 12 International Tax Reform – Pillar Two Model Rules and the removal of the disclosure objective in paragraph 198 of IFRS 19 along with the reference to it in paragraph 199 of IFRS 19. Both reductions meet the principles for developing reduced disclosure requirements as described in paragraph BC33 of the Basis for Conclusions on IFRS 19.**
>
> **EFRAG also considers that the disclosure requirements in paragraphs 196–199 of IFRS 19 are sufficiently elaborated for eligible subsidiaries to apply these requirements.**

25 EFRAG supports retaining the disclosure requirements in IFRS 19 relating to the amendments to IAS 12 International Tax Reform – Pillar Two Model Rules. Most of the targeted disclosure requirements meet the needs of users of eligible subsidiaries' financial statements. EFRAG shares the IASB's view that selecting some but not all of the

requirements would mean that users of eligible subsidiaries' financial statements would not have enough information to understand the effects of the Pillar Two model rules on affected subsidiaries.

26 EFRAG supports the removal of the disclosure objective in paragraph 198 of IFRS 19 and the reference to it in paragraph 199 of IFRS 19. EFRAG considers that this amendment to IFRS 19 is consistent with the principles for developing reduced disclosure requirements as described in paragraph BC33 of the *Basis for Conclusions* on IFRS 19.

27 EFRAG also considers that the disclosure requirements in paragraphs 196–199 of IFRS 19 are sufficiently elaborated for eligible subsidiaries to apply these requirements.

Question 4 – Lack of exchangeability

Notes to constituents – Summary of proposals in the ED

28 *In August 2023, the IASB published amendments to IAS 21* The Effects of Changes in Foreign Exchange Rates*. The amendments require an entity to apply a consistent approach:*

(a) to assessing whether a currency is exchangeable into another currency; and

(b) to determining the exchange rate to use and the disclosures to provide if the currency is not exchangeable.

29 *The amendments are effective for periods beginning on or after 1 January 2025.*

30 *The new disclosure requirements introduced by the amendments are included in paragraphs 221–224 of IFRS 19.*

31 *In the ED, the IASB proposes to only remove the disclosure objective introduced into IAS 21 by Lack of Exchangeability (paragraphs 221-222 of IFRS 19) but retaining the detailed requirements that were specified as being necessary to satisfy the objective (paragraph 223 of IFRS 19).*

Question 4 – Lack of exchangeability (proposed amendments to paragraphs 221–223 of IFRS 19)

The IASB is proposing to retain the disclosure requirements in IFRS 19 relating to the amendments for lack of exchangeability issued in August 2023. The IASB amended IAS 21 to require an entity to apply a consistent approach:

(a) to assessing whether a currency is exchangeable into another currency; and

(b) to determining the exchange rate to use and the disclosures to provide if a currency is not exchangeable.

The only proposed change is to remove from IFRS 19 the disclosure objective and the reference to the amount of detail necessary to satisfy that objective.

Paragraphs BC22–BC26 of the Basis for Conclusions on the Exposure Draft explain the IASB's rationale for this proposal.

Do you agree that, following the removal of reference to the disclosure objective, the disclosure requirements in paragraphs 221–223 of IFRS 19 are sufficient and clear?

Are there any other disclosure requirements that should be removed from IFRS 19? Please explain your reasons. [Emphasis by EFRAG]

EFRAG's response

EFRAG supports the removal of the disclosure objective in paragraph 221 of IFRS 19 and recommends retaining the detailed requirements in paragraph 223 of IFRS 19. EFRAG considers that this amendment to IFRS 19 is consistent with the principles for developing reduced disclosure requirements and would provide relevant information about measurement uncertainties and accounting policy choices to users of financial statements.

However, EFRAG considers that the disclosures required under paragraph 224 of IFRS 19 are quite detailed. In general, EFRAG is supportive of the inclusion of these disclosures in IFRS 19; however, EFRAG questions whether they satisfy the principles for reducing disclosures applied by the IASB. Therefore, EFRAG recommends the IASB explain better its rationale for including these disclosures in IFRS 19.

32 EFRAG supports the removal of the disclosure objective in paragraph 221 of IFRS 19 and recommends retaining the detailed requirements in paragraph 223 of IFRS 19 specified as being necessary to satisfy the objective. EFRAG considers that this amendment to IFRS 19 is consistent with the principles for developing reduced disclosure requirements and would provide relevant information about measurement uncertainties and accounting policy choices, which are of interest to the users of eligible subsidiaries' financial statements.

33 However, EFRAG considers that the disclosures required under paragraph 224 of IFRS 19 (e.g. name of the foreign operation, summarised financial information about the foreign operation, nature and terms of any contractual arrangements of the foreign operation, etc.) are quite detailed. In general, EFRAG is supportive of the inclusion of these disclosures in IFRS 19; however, EFRAG questions whether they satisfy the principles for reducing disclosures applied by the IASB. Therefore, EFRAG recommends the IASB explain better its rationale for including these disclosures in IFRS 19.

Question 5 – Financial instruments classification and measurement

Notes to constituents – Summary of proposals in the ED

34 *In May 2024, the IASB published amendments to IFRS 7 and IFRS 9* Financial Instruments *related to the classification and measurement of financial instruments. The amendments mainly relate to derecognition when an entity settles financial liabilities using an electronic payment system and classification when an entity assesses contractual cash flow characteristics of financial assets. The amendments also affected disclosures of:*

(a) investments in equity instruments designated at fair value through other comprehensive income; and

(b) financial instruments with contractual terms that could change the amount of contractual cash flows as a result of a contingent event.

35 *The new disclosure requirements added by the amendments were included in IFRS 19 except for disclosure requirements that were initially excluded from IFRS 19 because they did not meet the principles for developing reduced disclosure requirements.*

36 *The IASB did not include the original disclosure requirements relating to investments in equity instruments designated at fair value through other comprehensive income because the requirements did not satisfy the principles for reducing disclosures. Consequently, these disclosure requirements are not relevant to eligible subsidiaries applying IFRS 19.*

37 *In the ED, the IASB proposes that an eligible subsidiary provide information about contractual terms that could change the amount of contractual cash flows of financial assets and financial liabilities. Such disclosures provide users of financial statements with useful information about short-term cash flows and obligations of an entity as well as its solvency and liquidity. Therefore, the IASB does not propose removing any of the new requirements in IFRS 19.*

Question 5 – Financial instruments classification and measurement (no changes proposed)

Paragraphs 56A–56D of IFRS 19 were added due to *Amendments to the Classification and Measurement of Financial Instruments* issued in May 2024. The paragraphs contain disclosure requirements relating to the effects of contractual terms that could change the amount of contractual cash flows as a result of a contingent event that does not directly relate to basic lending risks and costs (such as the time value of money or credit risk).

The amendments to IFRS 19 were made without reducing the disclosure requirements. Having considered the amendments, the IASB proposes not to reduce the disclosure requirements because they provide users of eligible subsidiaries' financial statements with information about short-term cash flows and obligations as well as solvency and liquidity.

Paragraphs BC27–BC31 of the Basis for Conclusions on the Exposure Draft explain the IASB's rationale for this proposal.

Do you have comments or suggestions on the proposal not to reduce the disclosure requirements introduced by the amendments to IFRS 7 issued in May 2024? Please explain your reasons. [Emphasis by EFRAG]

EFRAG's response

EFRAG agrees with the IASB's proposal not to reduce the disclosure requirements related to financial instruments with contractual terms that could change the amount of contractual cash flows as a result of a contingent event (amendments to IFRS 7). This information could provide users of financial statements with useful information about eligible subsidiaries' short-term cash flows and obligations as well as their solvency and liquidity.

38 EFRAG agrees with the IASB's proposal not to reduce the disclosure requirements related to financial instruments with contractual terms that could change the amount of contractual cash flows as a result of a contingent event (amendments to IFRS 7). This information could provide users of financial statements with useful information about eligible subsidiaries' short-term cash flows and obligations as well as their solvency and liquidity.

39 Some members of the insurance sector have indicated that some insurance companies could still be impacted by the disclosure requirements in IFRS 19 as they might not meet the IASB's definition of public accountability. EFRAG observes that IFRS 19 does not propose any reductions to the disclosure requirements in IFRS 17 *Insurance Contracts*; however, insurance companies could benefit from reduced disclosures in IFRS 19 for other IFRS Accounting Standards. In addition, IFRS 19 is applied on a voluntary basis and, as such, eligible subsidiaries can elect whether to apply the standard or not.

Question 6 – Regulatory assets and regulatory liabilities

Notes to constituents – Summary of proposals in the ED

40 *In 2025, the IASB is expected to issue a new IFRS Accounting Standard* Regulatory Assets and Regulatory Liabilities, *which will replace IFRS 14* Regulatory Deferral Accounts*. When the RARL Standard is issued, the disclosure requirements relating to IFRS 14, which were included in IFRS 19, will be replaced by the proposed disclosure requirements in the prospective RARL Standard. The IASB expects that some entities within the scope of the new RARL standard will also be eligible to apply the IFRS 19 requirements*.

41 *However, in the ED the IASB does not propose to develop reduced disclosures for the prospective RARL Standard at this stage of the project because:*

a) there is limited potential for reducing disclosure requirements as detailed in Table 1 of Appendix 2; and

b) there are several benefits to delaying any proposed reduced disclosure requirements:

i) the prospective RARL Standard will introduce a new model for accounting for regulatory assets and regulatory liabilities, and the proposed disclosures are seen as being an integral part of the model; and

ii) delaying the reductions will allow users of financial statements to become familiar with the proposed new model and allow the IASB to assess the effectiveness of the proposed disclosures before proposing any reductions.

42 *Consequently, the IASB is seeking views on whether eligible subsidiaries within the scope of IFRS 19 that have regulatory assets and regulatory liabilities should be required to apply all the disclosure requirements under the RARL Standard or the reduced disclosure requirements after applying the principles for developing reduced disclosure requirements for entities applying IFRS 19. Both sets of potential disclosure requirements are described in Table 1 of Appendix 2 of the EFRAG [draft] comment letter.*

Question 6 – Regulatory assets and regulatory liabilities

An entity that applies IFRS 19 and the prospective RARL Standard will be required to apply the disclosure requirements in the prospective RARL Standard. The IASB is proposing to remove the disclosure requirements relating to IFRS 14, which were included in IFRS 19 when the prospective RARL Standard is issued and to amend paragraph 4(b) of IFRS 19 such that the disclosure requirements in the prospective RARL Standard remain applicable. These changes would be consequential amendments in the prospective RARL Standard.

Table 1 describes the disclosure requirements the IASB has tentatively decided to include in the prospective RARL Standard. Eligible subsidiaries with regulatory assets and regulatory liabilities would be required to apply all these requirements if IFRS 19 were not amended to

reduce the disclosure requirements. Table 1 also illustrates which requirements might be reduced if the IASB were instead to apply its principles for developing reduced disclosure requirements for entities applying IFRS 19.

The Exposure Draft proposes no reductions in disclosure requirements relating to regulatory assets and regulatory liabilities at this stage.

Paragraphs BC32–BC37 of the Basis for Conclusions on the Exposure Draft explain the IASB's rationale for these proposals.

Are you aware of entities that have regulatory assets and regulatory liabilities within the scope of the IASB's project on rate-regulated activities that would be eligible to apply IFRS 19?

Do you agree that an entity applying IFRS 19 and the prospective RARL Standard should be required to apply all the disclosure requirements in the prospective RARL Standard illustrated in Table 1? If you disagree, please suggest the disclosure requirements in Table 1 that an eligible subsidiary applying IFRS 19 should not be required to apply. Please explain your reasons.

EFRAG's response

EFRAG supports the IASB proposal not to develop reduced disclosures for the prospective RARL Standard at this stage of the project. EFRAG concurs with the IASB that there are potential benefits to delaying any potential reduced disclosure requirements, allowing sufficient time for both preparers and users of financial statements to become familiar with the new accounting model for rate-regulated entities and the new disclosure requirements that support it.

EFRAG agrees with the IASB's approach of gathering feedback from constituents on possible reductions to the proposed disclosures in the RARL Standard for the purposes of the IFRS 19 Standard.[Emphasis by EFRAG]

43 EFRAG supports the IASB's proposal not to develop reduced disclosures for the prospective RARL Standard at this stage of the project. EFRAG concurs with the IASB's reasoning for potential benefits to delaying any proposed reduced disclosure requirements related to both establishing a new model for rate-regulated entities and allowing users of financial statements to become familiar with the new disclosure requirements before any reduction is considered for the purposes of IFRS 19.

44 Additionally, the proposed disclosures for the prospective RARL standard are based on the IASB's tentative decisions and might undergo some changes in the process of finalising and drafting the final wording of the standard next year.

45 During a consultation with the EFRAG RRAWG on the proposed disclosure requirements for the prospective RARL Standard, some members indicated that the level of detail required to satisfy the disclosure objectives in the prospective RARL Standard was too high and would require significant efforts from preparers to provide the prospective disclosures. In EFRAG's view, this could be a sign that some adjustments to the final disclosure requirements might be forthcoming. Consequently, it is possible that some of the proposed

disclosures in the prospective RARL Standard could be modified before the final standard is published in 2025. This could have an effect on any potential reductions to disclosures for the purposes of the IFRS 19 Standard.

46 EFRAG supports the IASB's approach of gathering feedback from constituents on possible reductions to the proposed disclosures in the RARL Standard related to removing the disclosure objectives, application guidance and requirements in the prospective RARL Standard in line with the IASB's principles for reducing disclosures.

47 At this stage, EFRAG does not have information about entities that have regulatory assets and regulatory liabilities within the scope of the IASB's project on rate-regulated activities that would be eligible to apply IFRS 19. During its consultation on IFRS 19 amendments, EFRAG is planning to consult with its rate-regulated activities working group about potential impact of IFRS 19 on the sector.

Questions to Constituents

48 Do Constituents agree with the proposed potential reductions in disclosure requirements related to the RARL Standard, as highlighted in Table 1 of Appendix 2 to this issue paper?

49 Do you have any additional suggestions concerning further potential reductions related to the RARL Standard?

Appendix 2 – Table 1 in IASB's ED Amendments to IFRS 19 – Disclosure requirements in the prospective IFRS Accounting Standard *Regulatory Assets and Regulatory Liabilities*

50 Table 1 provides information to help constituents respond to Question 6 of Appendix 1 of EFRAG's draft comment letter. It reproduces the table included in the IASB's ED Amendments to IFRS 19 *Subsidiaries without Public Accountability: Disclosures* and contains the disclosure objectives and requirements that the IASB has tentatively decided to include in the prospective RARL Standard.

51 The table illustrates how the disclosure objectives, application guidance and requirements in the prospective RARL Standard could be reduced in IFRS 19 if the IASB were to develop reduced disclosure requirements for entities applying the prospective RARL Standard. The rows in Table 1 shaded in grey are examples of disclosure objectives and requirements that could be reduced (and are therefore not included in IFRS 19).

Table 1 – Disclosure requirements in the prospective RARL Standard

Disclosure requirements in the prospective RARL Standard	
1	An overall disclosure objective for an entity to disclose information about regulatory income, regulatory expense, regulatory assets and regulatory liabilities that would enable users of financial statements to understand the entity's future cash flow prospects.
2	Application guidance on aggregation and disaggregation of disclosures, including examples of the characteristics that an entity could use to aggregate or disaggregate disclosures in accordance with the principles in IFRS 18 *Presentation and Disclosure in Financial Statements*.
3	A specific disclosure objective for an entity to disclose information that would enable users of financial statements to understand how regulatory income or regulatory expense affected the entity's financial performance.
4	A requirement for an entity to disclose components of regulatory income or regulatory expense included in profit or loss, comprising: (a) regulatory income relating to the origination of regulatory assets during the reporting period; (b) regulatory expense relating to the origination of regulatory liabilities during the reporting period;

	(c) regulatory expense relating to the recovery of regulatory assets during the reporting period; (d) regulatory income relating to the fulfilment of regulatory liabilities during the reporting period; (e) regulatory interest income or regulatory interest expense; and (f) other components –for example, regulatory income or regulatory expense relating to changes in the carrying amount of a regulatory asset or regulatory liability caused by a change in the boundary of a regulatory agreement, or remeasurements of regulatory assets or regulatory liabilities.
5	A requirement for an entity to disclose the components of regulatory income or regulatory expense described in (d) included in other comprehensive income.
6	A specific disclosure objective for an entity to disclose information that would enable users of financial statements to understand the entity's regulatory assets and regulatory liabilities as at the end of the reporting period and any changes in regulatory assets and regulatory liabilities that occurred during the reporting period.
7	A requirement for an entity to disclose: (a) quantitative information, using time bands, about when it expects to recover regulatory assets and fulfil regulatory liabilities; (b) the discount rate or ranges of discount rates used in measuring regulatory assets and regulatory liabilities at the end of the reporting period; (c) the regulatory interest rate provided by the regulatory agreement for a regulatory asset if the entity uses the minimum interest rate as the discount rate for that regulatory asset; (d) an explanation of how risks and uncertainties affect the recovery of regulatory assets or fulfilment of regulatory liabilities; (e) a reconciliation from the opening to the closing carrying amounts of regulatory assets and regulatory liabilities; and (f) a qualitative explanation of any significant changes in regulatory assets and regulatory liabilities that are not a consequence of regulatory income or regulatory expense.

8	Application guidance on what information to disclose about regulatory assets and regulatory liabilities that are measured using the same measurement basis as the related liabilities and assets.
9	A specific disclosure objective for an entity to disclose information that would enable users of the entity's financial statements to understand whether its regulatory capital base has a direct relationship with its property, plant and equipment.
10	A requirement for an entity to disclose: (a) whether the relationship between the entity's regulatory capital base and its property, plant and equipment is direct; and (b) the reasons why the entity has concluded that its regulatory capital base has or does not have a direct relationship with its property, plant and equipment.
11	A requirement for an entity to disclose: (a) the nature of unrecognised regulatory assets and unrecognised regulatory liabilities; (b) the regulatory approach (nominal or real) used by the regulator to compensate the entity for inflation; and (c) a statement of whether it receives regulatory returns on an asset not yet available for use if the entity's regulatory capital base has a direct relationship with its property, plant and equipment and the entity capitalises its borrowing costs.