EFRAG

Financial reporting

Comment Letter

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

28 November 2024

Dear Mr Barckow,

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

On behalf of 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 the 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 observes that the application of the principles for reducing disclosure requirements included in BC2 of the ED is not always understandable. EFRAG suggests that the IASB apply these principles transparently to the specific information needs of the users of eligible entities' financial statements. We recommend that the IASB consider engaging further with users of financial statements of eligible subsidiaries (i.e. lenders) on the type of information they need by establishing a dedicated consultative group, which will include users of financial statements of subsidiaries without public accountability. We observe that for any other new IFRS Accounting Standard and new amendments, the reductions are rather low. In cases where the IASB issues a new IFRS Accounting Standard (or an amendment) and the complete set of disclosure requirements of that Standard applies to subsidiaries without public accountability, it could be helpful to establish a review process for recent IFRS 19 amendments (like a three-year period after first time adoption).

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 with retaining the disclosure requirements in IFRS 19 relating to the amendments to IAS 12 *International Tax Reform—Pillar Two Model Rules* and with removing the disclosure 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 with removing the disclosure objective in paragraph 221 of IFRS 19 but 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 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 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.

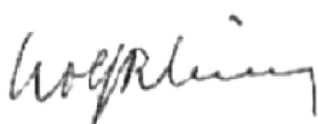
- *Regulatory assets and regulatory liabilities* – EFRAG supports the IASB proposal not to develop reduced disclosures for the prospective *Regulatory Assets and Regulatory Liabilities* Standard at this stage of the project. EFRAG concurs with the IASB that there are potential benefits to delaying any 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

Question 1 – Presentation and disclosure in financial statements

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?

EFRAG's response

1 EFRAG supports the IASB 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 understanding the financial information prepared.

2 EFRAG supports the IASB 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.

3 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.

4 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

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.

EFRAG's response

5 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.

6 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.

7 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

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.

EFRAG's response

8 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.

9 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.

10 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

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.

EFRAG's response

11 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.

12 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 that the IASB explain better its rationale for including these disclosures in IFRS 19.

Question 5 – Financial instruments classification and measurement

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.

EFRAG's response

13 EFRAG agrees with the IASB 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.

14 During the discussions related to these amendments, 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

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

15 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'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.

16 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.

17 During a consultation with the EFRAG Rate-Regulated Activities Working Group 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, resulting in detailed disclosures. This 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.

18 EFRAG supports the IASB's approach to 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. In this respect, in cases where the IASB issues a new IFRS Accounting Standard (or an amendment) and the complete set of the disclosure requirements of that Standard applies to subsidiaries without public accountability, it could be helpful to establish a review process for recent IFRS 19 amendments (like a three-year period after first time adoption).

19 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.