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Key messages on Updating the Subsidiaries without Public Accountability: Disclosures and gaining feedback for IFRS 19 endorsement and its future amendments

Issues Paper

Objective

1 The purpose of this issue paper is to seek:

(a) EFRAG CFSS feedback on the key messages to be considered in the EFRAG draft comment letter ('EFRAG DCL') on the IASB project *Updating the Subsidiaries without Public Accountability: Disclosures*. The key messages were discussed with EFRAG FR TEG at its July meeting. The EFRAG FR TEG will be asked to recommend the EFRAG DCL for approval to EFRAG FRB on 13 September 2024.

(b) EFRAG FR TEG and CFSS members views on how to gain feedback for the IFRS 19 endorsement process, the proposed amendments to IFRS 19 included in the ED Amendments to IFRS 19 *Subsidiaries without Public Accountability: Disclosures* and any future expected amendment to IFRS 19.

Background information

General information about IFRS 19

2 On 9 May 2024, the IASB published its new standard IFRS 19 *Subsidiaries without Public Accountability: Disclosures* ('the Subsidiaries Standard'). The application of this new standard will be voluntary for eligible subsidiaries and will permit the use of the recognition, measurement and presentation requirements of IFRS Accounting Standards with reduced disclosure requirements. The IASB developed the Subsidiaries Standard by considering issued IFRS Accounting Standards as at 28 February 2021.

3 In September 2023, the IASB decided that all changes made by new or amended standards proposed or issued after 28 February 2021 will be dealt with in a separate project: *Updating*

the Subsidiaries without Public Accountability: Disclosures (the 'Catch-up' Exposure Draft). The Catch-up Exposure Draft was issued in July 2024.

4 The Catch-up ED will update IFRS 19 to include reduced disclosure requirements for eligible subsidiaries for issued IFRS Accounting Standards as at May 2024. Any upcoming changes in disclosure requirements introduced by new or amended IFRS Accounting Standards would require consultation whether the proposed new disclosures should be included in full or reduced in IFRS 19 considering the principles for developing reduced disclosures. Exposure drafts published by the IASB after May 2024 will include a section for potential amendments to IFRS 19 standard.

5 The IASB's approach to maintain the Subsidiaries Standard is to require potential changes made on two levels:

(a) Detailed level – the new or amended disclosure requirements will be considered against the principles for reducing disclosures laid out in paragraph BC34 of the *Basis for Conclusions* on the 2021 *Exposure Draft Subsidiaries without Public Accountability: Disclosures*. These principles 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;

(b) at a high level - by 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.

ED Amendments to IFRS 19

6 The table below contains all the IASB projects where changes were made to disclosure requirements of existing IFRS Accounting Standards between 28 February 2021 and the publication of IFRS 19 (9 May 2024). These projects were considered and included in the Catch-up Exposure Draft published in July 2024.

Standard	Topic	IASB deliberations
IAS 7 and IFRS 7	Supplier Finance Arrangements	January 2024

IAS 12	International Tax Reform -Pillar Two Model Rules	January 2024
IAS 21	Lack of Exchangeability	January 2024
IFRS 9	Financial Instruments – Classification and Measurement	February 2024
IFRS 18	Presentation and Disclosure in Financial Statements	March 2024
IFRS XX	Rate-regulated Activities	March 2024

Latest experience with ED consultations which included a section for IFRS 19 amendments

7 The level of feedback during the consultation process on amendments to IFRS 19 proposed in recently published ED was relatively low. The feedback received in the form of comment letters and during outreach events (almost) solely comprised the proposed disclosures for full IFRS. It can therefore be concluded that the feedback level for IFRS 19 amendments is very low.

EFRAG FR TEG discussions on the project

8 On a timely basis, EFRAG FR TEG discussed and provided its feedback the IASB tentative decisions made with respect to the topics included in paragraph 6 except for reduced disclosures for rate-regulated activities. The discussions took place in February, April and July. The discussion related to the proposals for RRA was postponed to allow EFRAG FR TEG to receive upfront feedback from the RRAWG.

9 Appendix 1 to July agenda paper 07-01 provides a summary of the IASB's tentative decisions made on the project, the IASB rationale for these decisions and the EFRAG FR TEG's feedback on the proposed reduced disclosures.

Summary of key messages included in the EFRAG DCL on the ED Amendments to IFRS 19

10 Based on the feedback received by EFRAG FR TEG on the IASB tentative decisions on the Updating SwPA project, the key messages to be considered for the EFRAG draft comment letter on this project are:

(a) Express general support for the proposed reduced disclosure requirements considered as part of the Catch-up exposure draft. The support covers all standards/ amendments included in the catch-up ED. The limited reductions proposed in the ED reflect the discussions related to the respective projects.

(b) Suggest the IASB to be consistent in its rationale and criteria for reducing disclosure requirements for IFRS 19 standard;

(c) Impact for insurance companies - some insurance entities have indicated that they could still be impacted by the disclosure requirements for SwPA as they might not meet the IASB's definition of public accountability.

(d) Voluntary application of IFRS 19 – IFRS 19 is applied on a voluntary basis and as such eligible entities can elect whether to apply it or not.

(e) The timing for the finalisation of the amendments would be one point to address to the IASB. The publication of the amendments would be most helpful for the implementation process, if it is before major steps of the implementation started. Preparers wishing to apply IFRS 19 would very much welcome the opportunity to implement all of the amended requirements and not have to make further changes to processes and systems shortly after implementation of IFRS 19.

Approach to obtaining feedback on IFRS 19 and its amendments

11 EFRAG seeks feedback:

(a) for the (expected) IFRS 19 endorsement within the EU;

(b) on the ED Amendments to IFRS 19 *Subsidiaries without Public Accountability: Disclosures*;

(c) any upcoming ED consultations which propose changes to disclosure requirements.

12 EFRAG is planning to:

(a) consult with preparers and users, in particular credit analysts on the proposed reduced disclosure requirements included in IFRS 19;

(b) collaborate with different jurisdictions on conducting outreach on the IASB proposals.

13 As EFRAG was informed by EFRAG User Panel members that they might not be the right group of users (mainly equity analysts) to be consulted on IFRS 19 requirements. In order to obtain adequate feedback on IFRS 19, EFRAG took the initiative to establish a new sounding board for the usefulness of financial information when IFRS 19 is applied.

14 EFRAG invited users of financial information of subsidiaries that apply IFRS to join EFRAG´s community, which will act as a sounding board to help EFRAG make the assessment on the usefulness of information presented in the financial statements of eligible subsidiaries when they apply IFRS 19 standard. Users may be credit analysts, banks or minority

shareholders. To attract members of the sounding board, EFRAG published a news item, LinkedIn post and X's post.

15 The group will be consulted on any amendments to IFRS 19 and for the upcoming endorsement process. So far, the group is still in process of being formed.

16 To highlight the importance of the subject and its potential implications, the EFRAG Secretariat has started research to identify potential number of entities that may be affected by IFRS 19, if endorsed in the EU. The results are included in the Appendix 1 to this issues paper.

17 The question to be discussed today would be, whether a similar initiative should be taken for the preparer side. EFRAG FR TEG and its working groups include members of the group accounting departments only. Eligible subsidiaries are only represented indirectly.

Questions for EFRAG FR TEG

18 Does EFRAG CFSS members agree with the key messages included in paragraph 10 10 to be considered in the EFRAG draft comment letter on the IASB ED Amendments to IFRS 19 *Subsidiaries without Public Accountability: Disclosures*?

19 Does EFRAG FR TEG-CFSS have any comments on the EFRAG's approach for obtaining feedback on the IASB proposals?

20 Does EFRAG CFSS members plan any consultation activities in their jurisdictions? If so, please elaborate how you would like to approach preparers and users of financial statements.

21 Does EFRAG FR TEG-CFSS have any further comments/suggestions on this project or IFRS 19 in general?

Appendix 1– First preliminary analysis on how many European entities fall within the scope of IFRS 19, if endorsed for use in the EU

Purpose of the research

1 The EFRAG Secretariat has started research with the objective to estimate the number of European entities (EU/EEA) that would fall within the scope of IFRS 19 *Subsidiaries without Public Accountability: Disclosures*, if endorsed for use in the EU.

Preliminary first results

2 Following the methodology outlined in the following section, the results provided a rough approximation of:

(a) 169,403 entities would be subsidiaries without public accountability, without considering the options used by EU Member States;

(b) out of which **88,601** are entities located in EU Member States that currently permit/require the use of IFRS for the annual accounts of unlisted non-financial entities and therefore could apply IFRS 19.

3 Those numbers exclude any entities located in Portugal (the numbers were unexpectedly high – further analysis needs to be conducted for Portuguese entities). Therefore, in fact the number of entities being able to apply IFRS 19 is considered being higher.

Methodology

4 The research was based on the scope of IFRS 19, which allows an entity to elect applying IFRS 19.

5 The research was carried out using Moody's Analytics Inc. ***Orbis*** database and is based on data extracted on 29 July 2024.

6 For the approximation of the number of entities that would be eligible to apply IFRS 19 in the EU/EEA countries, we considered:

(a) **STEP 1:** Subsidiaries without public accountability located in EU/EEA countries, with the parent located in EU/EEA countries.

(b) **STEP 2:** Subsidiaries without public accountability located in EU/EEA countries, with the parent located **outside** EU/EEA countries.

7 As described in the updated **EFRAG Briefing**: AN EU PERSPECTIVE ON THE SCOPE OF IFRS 19, the use of IFRS 19 will depend on options used by Member States on the use of IFRS requirements for the annual accounts and/or consolidated financial statements of non-publicly traded entities in regulated markets. Member States can reconsider options used on a continued basis. Therefore, for both (a) and (b) above, we conducted two different searches:

(a) Without considering the current options used by Member States (all EU/EEA countries);

(b) Considering the current options used by Member States, and therefore limiting the search only to those EU/EEA countries that permit/require the use of IFRS Accounting Standards.

8 The results of Step 1 revealed that:

(a) **150,182** entities would be able to apply IFRS 19, if endorsed in the EU, without considering the options used by EU Member States;

(b) out of which **79,099** are entities located in EU Member States that currently permit/require the use of IFRS for the annual accounts of unlisted non-financial entities.

STEP 2: Subsidiaries without public accountability located in EU/EEA countries, with the parent located outside EU/EEA countries

9 For performing Step 2 of the research, we followed the same approach as Step 1, except (e)(i) being the country of the parent outside the EU. For simplification purposes, we excluded US and China as the entities located in these jurisdictions do not apply IFRS (and therefore, their subsidiaries would be outside the scope of IFRS 19).

10 The results of Step 2 revealed that:

(a) **19,221** entities would be able to apply IFRS 19, if endorsed in the EU, without considering the options used by EU Member States;

(b) out of which **9,502** are entities located in EU Member States that currently permit/require the use of IFRS for the annual accounts of unlisted non-financial entities.

Total number when considering results of step 1 and step 2 above

11 Combining the results of step 1 and step 2 above (excl. Portugal):

(a) **169,403** entities would be able to apply IFRS 19, if endorsed in the EU, without considering the options used by EU Member States;

(b) out of which **88,601** are entities located in EU Member States that currently already permit/require the use of IFRS for the annual accounts of unlisted non-financial entities.