EFRAG Financial reporting

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IFRS 19 Subsidiaries without Public Accountability: Disclosures

DEA Appendices 2 and 3 - Issues paper

Objective

1 The objective of this paper is to provide EFRAG FR TEG with draft version of Appendices 2 and 3 of the DEA and to obtain EFRAG FR TEG views and suggestions on the drafting.

Appendix 2: EFRAG's technical assessment on IFRS 19 against the endorsement criteria

Notes to Constituents:

This appendix sets out the basis for the conclusions reached, and for the recommendation made, by EFRAG on IFRS 19. In it, EFRAG assesses how IFRS 19 satisfies the technical criteria set out in the Regulation (EC) No 1606 2002 for the adoption of international accounting standards. It provides a detailed evaluation for the criteria of relevance, reliability, comparability and understandability, so that financial information is appropriate for economic decisions and the assessment of stewardship. It evaluates separately whether IFRS 19 leads to prudent accounting and finally considers whether IFRS 19 would not be contrary to the true and fair view principle.

In its comment letters to the IASB, EFRAG points out that such letters are submitted in EFRAG's capacity of contributing to the IASB's due process. They do not necessarily indicate the conclusions that would be reached by EFRAG in its capacity of advising the European Commission on endorsement of the definitive IFRS Accounting Standards in the European Union and European Economic Area.

In the latter capacity, EFRAG's role is to make a recommendation about endorsement based on its assessment of the final IFRS Accounting Standard or Interpretation against the technical criteria for European endorsement, as currently defined. These are explicit criteria which have been designed specifically for application in the endorsement process, and therefore the conclusions reached on endorsement may be different from those arrived at by EFRAG in developing its comments on proposed IFRS Accounting Standards or Interpretations. Another reason for a difference is that EFRAG's thinking may evolve.

Does the accounting that results from the application of IFRS 19 meet the technical criteria for endorsement in the European Union?

38 EFRAG has considered whether IFRS 19 meets the technical requirements of the European Parliament and of the Council on the application of international accounting standards, as set out in Regulation (EC) No 1606/2002 (The IAS Regulation), in other words that IFRS 19:

(a) is not contrary to the principle set out in Article 4 (3) of Council Directive 2013/34/EU (The Accounting Directive); and

(b) meets the criteria of understandability, relevance, reliability, and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

39 Article 4(3) of the Accounting Directive provides that:

The annual financial statements shall give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss. Where the application of this Directive would not be sufficient to give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss, such additional information as is necessary to comply with that requirement shall be given in the notes to the financial statements.

40 The IAS Regulation further clarifies that ‘to adopt an international accounting standard for application in the Community, it is necessary firstly that it meets the basic requirement of the aforementioned Council Directives, that is to say that its application results in a true and fair view of the financial position and performance of an enterprise - this principle being considered in the light of the said Council Directives without implying a strict conformity with each and every provision of this Directive’ (Recital 9 of the IAS Regulation).

41 EFRAG’s assessment as to whether IFRS 19 would not be contrary to the true and fair view principle has been performed against the European legal background summarised above.

42 In its assessment, EFRAG has considered IFRS 19 from the perspectives of both usefulness for decision-making and assessing the stewardship of management. EFRAG has concluded that the information resulting from the application of IFRS 19 is appropriate both for making decisions and assessing the stewardship of management.

43 EFRAG’s assessment on whether IFRS 19 is not contrary to the true and fair view principle set out in Article 4(3) of Council Directive 2013/34/EU is based on the assessment of whether it meets all other technical criteria and whether it leads to prudent accounting. EFRAG’s assessment also includes assessing whether IFRS 19 does not interact negatively with other IFRS Accounting Standards and whether all necessary disclosures are required. Detailed assessments are included in this appendix in the following paragraphs:

(a) relevance: paragraphs 45 - 56;

(b) reliability: paragraphs 57 - 65;

(c) comparability: paragraphs 66 - 73;

(d) understandability: paragraphs 74 - 80;

(e) whether overall it leads to prudent accounting: paragraphs 81 - 84; and

(f) whether it would not be contrary to the true and fair view principle 89 - 92.

44 In providing its assessment on whether IFRS 19 results in relevant, reliable, understandable and comparable information, EFRAG has considered all the requirements of IFRS 19. EFRAG has, however, focused its assessment on the requirements it considered most significant in relation to each of the criteria. EFRAG has accordingly focused on guidance that:

(a) has been subject to substantial debate (evidenced by the comments EFRAG has received from constituents);

(b) relates to the issues raised by the European Commission in its request for endorsement advice dated 17/09/2024.

Relevance

45 Information is relevant when it influences the economic decisions of users by helping them evaluate past, present or future events or by confirming or correcting their past evaluations. Information is also relevant when it assists in evaluating the stewardship of management.

46 EFRAG considered whether IFRS 19 would result in the provision of relevant information – in other words, information that has predictive value, confirmatory value or both – or whether it would result in the omission of relevant information.

47 The principles used to develop the reduced disclosure requirements of IFRS 19 and described in paragraph **Error! Reference source not found.** aimed to ensure that useful and relevant information is provided to the particular group of the users of eligible subsidiaries' financial statements.

48 Therefore, some disclosures that were considered more relevant to investment decisions in public capital markets than to the transactions and other events and conditions encountered by typical eligible subsidiaries were excluded from IFRS 19.

49 The feedback received by EFRAG suggested that the relevant user community interested in subsidiaries' financial statements are typically credit analysts, who focus particularly on short-term cash flow information, long-term solvency, overall profitability and information about obligations, commitments or contingencies, whether or not they are recognised as liabilities which is in line with principles used for elaborating the disclosures.

50 The feedback received by EFRAG from the user community although highlighting concerns about some eventual loss of information, nevertheless agreed that overall the relevance of the information will be improved as the disclosures will focus on the key information about material aspects of the business and operations of a subsidiary.

51 The potential cost savings from IFRS 19 might lead subsidiaries that previously hesitated to apply IFRS in their own statutory reporting to switch to IFRS. In the case an eligible subsidiary transitions from local GAAP to IFRS, by applying IFRS 19, it can apply the accounting policies of the parent company in combination with applying IFRS 19 for the

respective disclosures. This might have two advantages. Firstly, the parent company may have better capacity to assess complex transactions and ensure the most relevant accounting of these in the financial statements. Secondly, the long-standing due process has shown that application of IFRS generally aims to provide relevant information. There are also requirements and guidelines for complex transactions. Overall, it can therefore be assumed that more relevant information will be provided for the assessment of the net assets, financial position and results of operations.

52 EFRAG assessed already during the ED consultation phase whether there is a potential loss of information due to the reductions of disclosure requirements in IFRS 19. In its final comment letter on the ED EFRAG recommended adding several disclosures as it considered them potentially relevant for the users of financial statements. However, when considering the overall feedback received the IASB decided not to add them into IFRS 19.

53 In particular, EFRAG recommended adding the following information:

(a) paragraph 25 of IFRS 1 which requires that if an entity presented a statement of cash flows under its previous GAAP, it shall also explain the material adjustments to the statement of cash flows', because this information will be useful to the users who focus on cash flows.

(b) paragraph 52 of IFRS 2 which states that 'if an entity has classified any share-based payment transactions as equity-settled, the entity shall disclose an estimate of the amount that it expects to transfer to the tax authority to settle the employee's tax obligation when it is necessary to inform users about the future cash flow effects associated with the share-based payment arrangement'. EFRAG considered that these disclosures provide useful information on future cash flow effects associated with the share-based payment arrangement.

(c) the primary reasons for the business combination from paragraph B64(d) of IFRS 3 because it would be relevant for users of financial statements and would not be costly.

(d) if a business combination is not finalised at the end of the reporting period, amounts recognised in the financial statements for the business combination that have been determined provisionally (as in paragraph B67(a) of IFRS 3). EFRAG considered that this information is important because there is a measurement uncertainty.

(e) in a business combination achieved in stages, users often look for the information about the amount of any gain or loss recognised as a result of remeasuring to fair value the equity interest in the acquiree held by the acquirer before the business combination as in paragraph B64(p) of IFRS 3.

(f) paragraphs 23 and 24 of IFRS 6, which focus on disclosing information that identifies and explains the amounts recognised in the financial statements arising from the exploration for and evaluation of mineral resources. Paragraph BC65 of the BC for IFRS 19 explains that paragraphs 23 and 24 of IFRS 6 are excluded because it would be difficult to include industry-specific guidance and, at the same time, keep it user-friendly for 'simple SMEs'.

(g) a number of disclosures for intermediate parents and/or subsidiaries that have significant investments from IFRS 12. In particular, the disclosures required by paragraph 10(a)(i) about a composition of a group; disclosures about consolidated and unconsolidated structured entities required by paragraph 14 and disclosures on significant investments required by paragraph 21. However, such disclosures would not have a significant impact on individual subsidiaries and would not affect most of the population in the scope of IFRS 19.

(h) disclosure on the nature of expenses when an entity classifies expenses by function, as required by paragraph 104 of IAS 1, as such information is fundamental for users.

(i) disclosures on discontinued operations, as in paragraph 81(h) of IAS 12, are usually very relevant for users of financial statements. Additionally, when an entity has significant investments, the disclosures on the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint arrangements, as in paragraph 81(f), are highly valued by users of financial statements. Finally, EFRAG suggested to require disclosures on evidence of deferred tax asset (DTA), as required in paragraph 82 to have evidence that supports the recognition of DTA's, as this is a very subjective area.

(j) for separate financial statements, a list of significant investments in subsidiaries, joint ventures and associates, including the name of those investees, their principal place of business and a proportion of the ownership interest held in those investees (as in paragraph 16 of IAS 27).

(k) the period over which management has projected cash flows when calculating unit's (group of units') recoverable amount. Moreover, EFRAG highlighted the importance of having detailed information about impairments and reversal of impairments. - Paragraph 254(d)(ii) of IFRS 19 already asks to explain each key assumption on which management has based its cash flow projections and the period over which cash flows are projected is one of them.

54 After a careful consideration EFRAG assesses that although the information requested in the comment letter could enhance the required disclosures, it is in majority of cases either industry specific or relates to transactions which do not occur often or types of subsidiaries (intermediate parents) represent only a small portion of the entities in the scope of IFRS 19. In addition, paragraph 6 of IFRS 19 requires that additional disclosures should be presented if needed to meet users' needs. Therefore, EFRAG considers that not specifically requiring the above disclosure does not have significant impact on relevance.

55 EFRAG also highlights that the scope of IFRS 19 is unlisted subsidiaries without fiduciary capacity of the parents reporting under full IFRS Accounting Standards and that industries where a public interest exists, such as most of insurance and banks, are excluded from its scope. Given relatively targeted scope of its application, EFRAG's overall assessment is that IFRS 19 would not result in the omission of relevant information for the users of the eligible subsidiaries and, therefore, satisfies the relevance criterion.

56 In this context it is worth to mention the view of some stakeholders that the relevance of IFRS 19 itself depends on the level of reductions of disclosures. Specifically, entities that currently do not report under IFRS Accounting Standards would only transition to them if there are significant simplifications/reductions compared to the full IFRS Accounting Standards. Therefore, the IASB carefully considered and kept those disclosures which were requested by the majority of respondents.

Reliability

57 EFRAG also considered the reliability of the information that will be provided by applying IFRS 19. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully what it either purports to represent, or could reasonably be expected to represent, and is complete within the bounds of materiality and cost.

58 There are a number of aspects to the notion of reliability: freedom from material error and bias, faithful representation, and completeness.

59 IFRS 19 is a disclosure only standard and does not change measurement, recognition and presentation requirements which normally have the most impact on reliability.

60 All other requirements in IFRS Accounting Standards remain applicable thus ensuring that financial information underlying the reduced disclosure requirements is reliable.

61 Transition to IFRS 19 might indirectly affect reliability, because uniform financial reporting framework promoting consistency in accounting practices will be applied across subsidiaries and the parent entity and will result in a provision of a more reliable information.

62 Application of IFRS 19 will also reduce the risk of errors from converting local GAAP numbers to IFRS and thus will improve the reliability of the information.

63 IFRS 19 includes all disclosure requirements eligible subsidiary has to apply. Any future change in disclosure requirements will be immediately reflected in IFRS 19. This easy and clear structure helps the standard to be applied in a reliable way.

64 Some larger groups use shared service centres to prepare the financial information of eligible subsidiaries. To prepare the financial information of several subsidiaries in such

shared service centres does not only have a positive impact on costs, but it might also improve the quality of information.

65 EFRAG's overall assessment is that IFRS 19 will have positive impact on the reliability of the information and therefore satisfies the reliability criterion.

Comparability

66 The notion of comparability requires that like items and events are accounted for in a consistent way through time and by different entities, and that unlike items and events should be accounted for differently.

67 EFRAG has considered whether IFRS 19 results in transactions that are:

(a) economically similar being accounted for differently; or

(b) transactions that are economically different being accounted for as if they are similar.

68 As noted above, IFRS 19 does not impact measurement, recognition and presentation requirements in IFRS Accounting Standards and, therefore, does not change how the transactions are accounted for. It only introduces the reduced disclosure requirements for the eligible subsidiaries.

69 EFRAG shares the views of constituents, both preparers and users, that IFRS 19 will improve comparability both between the entities of the same group and between eligible subsidiaries in jurisdictions which permit or require the use of IFRS Accounting Standards. It could also indirectly incentivise the wider adoption of IFRS by entities and jurisdictions which will have positive impact on the comparability of the financial statements in the European context.

70 Subsidiaries that decide to transition to IFRS Accounting Standards from local GAAP will use uniform accounting framework across the group which will improve comparability between the group entities. Users will benefit from the increased efficiency of analysing comparable financial information.

71 EFRAG notes, however, that in those jurisdictions where the use of IFRS Accounting Standards is required for eligible subsidiaries, comparability might be reduced to a certain extent. As IFRS 19 is a voluntary standard, some entities might apply full IFRS Accounting Standards while others will apply the reduced disclosure framework. As the focus of the IASB was to include the relevant information for the users of the eligible subsidiaries, EFRAG concludes that the most relevant part of the information will be provided on a comparable basis.

72 It should be noted that excluding financial institutions and insurance companies from the scope of IFRS 19, might also have impact on comparability of their financial statements with entities from other industries. These entities have to provide the disclosures either under full IFRS Accounting Standards or under local GAAP (even if IFRS is permitted in their jurisdiction), while eligible subsidiaries from other industries might voluntarily apply the reduced disclosure standard. Their exclusion from the scope of IFRS 19 will have no impact on the current comparability within the industry.

73 EFRAG's overall assessment is that the requirements in IFRS 19 will result in comparable information. The extent of benefits from the improved comparability of the financial statements will depend on how widely IFRS 19 is used.

Understandability

74 The notion of understandability requires that the financial information provided should be readily understandable by users with a reasonable knowledge of business and economic activity and accounting, and the willingness to study the information with reasonable diligence.

75 Although there are a number of aspects related to the notion of 'understandability', EFRAG believes that most of the aspects are covered by the discussion above about relevance, reliability and comparability.

76 As a result, EFRAG believes that the main additional issue it needs to consider, in assessing whether the information resulting from the application of IFRS 19 is understandable, is whether that information will be unduly complex.

77 EFRAG notes that users generally may benefit from analysing financial statements prepared under IFRS Accounting Standards. Besides the consolidated group information, they would receive information from eligible subsidiaries on a similar and comparable basis. As a result users will only need to have a knowledge of IFRS Accounting Standards and not several different local GAAPs. This would have positive impact on understandability.

78 The disclosure requirements in IFRS 19 were developed to address specific needs of the users of non-listed subsidiaries (see the principles in paragraph **Error! Reference source not found.**), such as credit analysts and other finance providers, so that resulting information is expected to be easily understandable by them.

79 The reduced disclosures focus on the most relevant information without obscuring it with unnecessary details. This in EFRAG's view, has a positive effect on understandability and responds to users' needs. As already noted above, IFRS 19 follows the fair presentation principle described in paragraph 6 of the standard. This principle requires an eligible subsidiary to consider whether to provide additional disclosures to make the presented information understandable.

80 In EFRAG's view, disclosure requirements in IFRS 19 do not introduce any new complexity that may impair understandability. Therefore, EFRAG's overall assessment is that IFRS 19 satisfies the understandability criterion in all material respects.

Prudence

81 For the purpose of this endorsement advice, prudence is defined as caution in conditions of uncertainty. In some circumstances, prudence requires asymmetry in recognition such that assets or income are not overstated and liabilities or expenses are not understated.

82 IFRS 19 only deals with the disclosure requirements, leaving all measurement, recognition and presentation requirements in the other IFRS Accounting Standards unchanged. The reduced disclosure requirements have no impact on prudence.

83 In addition, requiring full disclosure requirements for the new IFRS Accounting Standards, such as for IFRS 17 *Insurance Contracts* could be viewed as a prudent approach.

84 IFRS 19 does not affect recognition and measurement requirements. EFRAG has therefore concluded that it raises no issues in relation to prudence as defined above.

Early application of IFRS 19

85 IFRS 19 has an effective date of 1 January 2027 with an earlier application permitted. IFRS 18 *Presentation and Disclosure in Financial Statements* was issued by the IASB in April 2024 and replaced IAS 1 *Presentation of Financial Statements* which will be withdrawn from the effective date of IFRS 18. IFRS 18 has the same effective date as IFRS 19, but if an eligible subsidiary chooses to early apply IFRS 19 and this is before it applies IFRS 18 then it should apply the requirements in Appendix B of IFRS 19. One may say that this approach may be confusing for some entities.

86 Feedback received by EFRAG showed that entities generally prefer first applying IFRS 18 and then applying IFRS 19, but in the unlikely situation if IFRS 19 is applied first, EFRAG considers that provisions of IFRS 19 are clear enough to be consistently applied. EFRAG also notes that IFRS 18 is expected to be endorsed in EU several months before IFRS 19 will potentially be endorsed, thus alleviating the concerns.

Carve-out

87 This section responds to the additional request of the EC in its endorsement advice letter about "whether a corresponding carve-out could be made in IFRS 19 or whether general information of companies about this would suffice". This request refers to the comparison of the disclosure requirements in the Accounting Directive ('AD') and the reduced-disclosure standard with the aim to eventually carve-out the reductions of the disclosure requirements in IFRS 19 to make them in line with the requirements in the AD.

88 However, IFRS 19 contains a list of disclosure requirements grouped by IFRS Accounting Standard and not a list of reductions of disclosures. Hence, any carve-out to this list will remove a disclosure requirement instead of removing a reduction of a disclosure requirement. Therefore, any carve-out will result in further decrease of disclosure requirements and potentially even in increase of the differences with the AD. As a result, EFRAG does not recommend using a carve-out as it will not achieve its objective of bringing both requirements in line.

True and Fair View Principle

89 A Standard will not impede information from meeting the true and fair view principle when, on a stand-alone basis and in conjunction with other IFRS Accounting Standards, it:

(a) does not lead to unavoidable distortions or significant omissions in the representation of that entity's assets, liabilities, financial position and profit or loss; and

(b) includes all disclosures that are necessary to provide a complete and reliable depiction of an entity's assets, liabilities, financial position and profit or loss.

90 EFRAG has assessed that IFRS 19 does not create any negative interactions with other IFRS Accounting Standards. IFRS 19 contains an optional reduced disclosure framework for eligible subsidiaries and works alongside other IFRS Accounting Standards which define recognition, measurement and presentation requirements that remain unchanged.

Accordingly, EFRAG has assessed that IFRS 19 does not lead to unavoidable distortions or significant omissions and therefore do not impede financial statements from providing a true and fair view.

91 EFRAG has concluded that IFRS 19 contains the appropriate disclosures that are necessary to provide a complete and reliable depiction of an entity's assets, liabilities, financial position and profit or loss.

92 As a result, EFRAG concludes that the application of IFRS 19 would not lead to information that would be contrary to the true and fair view principle.

Conclusion

93 Accordingly, for the reasons set out above, EFRAG's assessment is that IFRS 19 meets the technical requirements for EU endorsement as set out in the IAS Regulation.

Appendix 3: Assessing whether IFRS 19 is conducive to the European public good

Introduction

94 EFRAG considered whether it would be conducive to the European public good to endorse IFRS 19. In addition to its assessment included in Appendix 2, EFRAG has considered a number of issues in order to identify any potential negative effects for the European economy on the application of IFRS 19. In doing this, EFRAG considered:

(a) Whether IFRS 19 improves financial reporting. This requires a comparison of IFRS 19 with the existing requirements, including its interaction with provisions of the EU Accounting Directive and how it fits into IFRS Accounting Standards as a whole;

(b) The costs and benefits associated with IFRS 19, including the number of entities potentially impacted by the implementation of IFRS 19 in the EU; and

(c) Whether IFRS 19 could have an adverse effect to the European economy, including financial stability and economic growth.

95 These assessments allow EFRAG to draw a conclusion as to whether IFRS 19 is likely to be conducive to the European public good. If the assessment concludes there is a net benefit, IFRS 19 will be conducive to the objectives of the IAS Regulation.

EFRAG's evaluation of whether IFRS 19 is likely to improve the quality of financial reporting

96 EFRAG has focused its assessment on the most significant impacts of the potential implementation of IFRS 19 in the EU and covered by the special requests of the EC. The structure is as follows:

Interaction with the EU Accounting Directive

Disclosure requirements

97 This section addresses the EC's additional request in its endorsement advice request, which asks to compile 'a list of disclosure requirements that will remain, despite the endorsement of IFRS 19, to be done by companies using the standard, where Directive 2013/34/EU (Accounting Directive, or 'AD') would apply in conjunction'. Therefore, this section provides a comparative analysis of the requirements in AD and IFRS 19, as well as a high-level overview of the varying disclosure requirements in the AD for different sizes of entities. More details can be found in the EFRAG Secretariat's Briefing Updated EFRAG Secretariat study on compatibility of the EU Accounting Directive with IFRS 19.

98 98 The AD covers a wider range of reporting requirements than IFRS 19, for example it includes requirements for the publication of non-financial information, management

report, audit, etc. For the purposes of this comparison, EFRAG only assesses the differences in disclosure requirements between the AD and IFRS 19.

99 The AD applies 'subsidiarity and proportionality' principle to ensure that the administrative burden is justified by the benefits it brings, by providing simplified requirements tailored to different sizes of entities.

100 Similar to the AD's 'subsidiarity and proportionality' principle, IFRS 19 aims to simplify reporting requirements for eligible subsidiaries with the objective of reducing costs for the preparation of eligible subsidiaries' financial statements, while meeting users' information needs.

101 However, unlike the AD, the scope of IFRS 19 does not take into account the size criteria. Subsidiaries, regardless of their size, are eligible to apply IFRS 19 if they meet the definition provided in paragraph 7 of IFRS 19.

102 As mentioned in paragraph 10 of Appendix 1, there are differences in disclosure requirements between the AD and IFRS Accounting Standards, as well as some additional differences due to the disclosure requirements reduced by IFRS 19.

103 However, since disclosure requirements in the AD are based on the size of the entity, these differences can vary accordingly. Article 3 of the AD lays down the size categories and types of undertakings on which requirements are based: micro, small, medium-sized and large undertakings or groups.

104 Two tables below provide a list of disclosure requirements in AD which are not present either in full IFRS Accounting Standards (Table 1) or in IFRS 19 (Table 2) split by entity type as defined in the AD.

Table 1: Disclosures in the AD not required by IFRS Accounting Standards – per type of entity

Disclosure requirement	**Micro undertakings**	**Small Undertakings / groups**	**Medium-sized undertakings / groups**	**Large undertakings / groups and PIEs**
the reporting entity and the group, and information necessary to identify the register (e.g., where the file is being kept) and the number in that register; the legal form of the	X	X	X	X

Disclosure requirement	Micro undertakings	Small Undertakings / groups	Medium-sized undertakings / groups	Large undertakings / groups and PIEs
company, the location of its registered office and, where appropriate, the fact that the company is being wound up (Article 5) the place where copies of the consolidated financial statements of the ultimate and intermediate parent may be obtained and the name and registered office of undertakings in which participating interest is held (Article 17)				
the use of specific measurement options (e.g., fair value) (Article 16.1 (c))	X	X	X	X
exceptional items (Article 16.1 (f))	X	X	X	X
amounts owed falling due after more than five years (Article 16.1 (g))	X	X	X	X
the average number of employees (Article 16.1 (h))	X	X	X	X
emoluments granted in respect of the financial year to the members of administrative, managerial and supervisory bodies by reason of their responsibilities (Article 17.1 (d))			X	X
the entity's shares (shares subscribed for, including by class and any participation certificates, convertible debentures, warrants,			X	X

Disclosure requirement	**Micro undertakings**	**Small Undertakings / groups**	**Medium-sized undertakings / groups**	**Large undertakings / groups and PIEs**
options or similar securities or rights, if appropriate) (Article 17.1(h) (i) (j))				
any undertaking of which it is a member with unlimited liability (Article 17.1 (k))			X	X
business combinations within a group (Article 25)		X	X	X
payments made to auditors (Article 18.1(b))				X
analysis of turnover by geographical markets and type of activity (Article 18.1(a))				X
any necessary disclosure if an exemption from consolidation, exemption for subsidiary undertakings or profit and loss exemption is used (Articles 23.6, 37.6 and 39.2 and 39.3)		X	X[1]	

[1] Depending on how Member States used options to exempt specific types of entities from certain requirements in the AD.

Table 2: Disclosures in the AD not required by IFRS 19, but aligned with IFRS Accounting Standards – per type of entity

Disclosure requirement	Micro undertakings	Small Undertakings / groups	Medium-sized undertakings / groups	Large undertakings / groups and PIEs
composition of a group (Preamble 37 of the AD; paragraphs 10(a)(i), B4(a) and B5-B6 of IFRS 12)			X[2]	X
detailed information on subsidiaries that have non-controlling interests that are material to the reporting entity, including the name of the subsidiary (Preamble 37 of the AD; paragraph 12 of IFRS 12)			X[2]	X
name of each material joint arrangement or associate (Preamble 37 of the AD; paragraph 21(a)(i) of IFRS 12)			X[2]	X
nature of the entity's relationship with the joint arrangement or associate (Preamble 37 of the AD; paragraph 21(a)(ii) of IFRS 12)			X[2]	X
proportion of ownership interest or participating share held by the entity and, if different, the proportion of voting rights held (Article 17.1 (g) of the AD; paragraph 21(a)(iv) of IFRS 12)			X	X

[2] Depending on whether Member States used options to exempt medium-sized groups from the obligation to prepare consolidated financial statements (unless any of the affiliated undertakings is a public-interest entity).

Disclosure requirement	Micro undertakings	Small Undertakings / groups	Medium-sized undertakings / groups	Large undertakings / groups and PIEs
for separate financial statements, a list of significant investments in subsidiaries, joint ventures and associates, including the name of those investees and the principal place of business (and country of incorporation if different) of those investees, as well as its proportion of the ownership interest (and its proportion of the voting rights if different) held in those investees (Article 17.1 (g) of the AD; paragraph 16(b) of IAS 27			X	X

105 EFRAG highlights that the majority of the above disclosures are required by national law of the Member States ('MS') transposed from the Accounting Directives (formerly the 4th and 7th Council Directives[3]) for entities which fall within the scope of the IAS Regulation and report financial information in accordance with IFRS Accounting Standards in EU.

106 In addition to the minimum disclosure requirements set out in the AD, MS are provided with options to simplify or exempt disclosure requirements for specific types of entities. As a result, differences in disclosure requirements will also depend on how MS use these options for simplified disclosure requirements or exemptions.

107 As seen from the tables above, IFRS 19 may be more demanding in terms of disclosures for micro, small and in some cases medium-sized entities, because of the reliefs provided by the AD. However, IFRS 19 is a voluntary standard and each entity will assess whether and to which extent its application could be beneficial in its particular case.

[3] Comments concerning certain Articles of the Regulation (EC) No 1606/2002: INTERPRETATIVE COMMUNICATION CONCERNING CERTAIN ARTICLES OF THE

4th Council Directive https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:31978L0660

7th Council Directive: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:31983L0349

108 The entities in jurisdictions where IFRS are permitted or required, such as for example Cyprus, Italy or Portugal can directly benefit from the reduced disclosures for their eligible subsidiaries. The entities which would like to switch to IFRS, but have not done so, because the disclosures were too burdensome, can be incentivised by the reduced disclosures provided by IFRS 19.

109 Small or micro entities in jurisdictions where IFRS is permitted, such as for example Denmark, Luxembourg, Netherlands should carefully assess whether applying IFRS and IFRS 19 would be more beneficial for them than applying local GAAP and using the reliefs and exemptions provided by the AD and local law.

110 Although IFRS 19 does not require the same disclosures as the AD, paragraph 6 of the standard requires entities to consider whether additional disclosures are needed to meet users' information needs and to provide these disclosures when necessary. The materiality principle can also be used to either remove unnecessary or add necessary disclosures. Management judgement and users' needs play important role in determining the level of disclosures to provide.

111 Thus, it could be seen that the 'subsidiarity and proportionality’ principle of the AD is addressed in IFRS 19 in a principles-based way used in IFRS Accounting Standards.

112 It should also be noted that disclosure reductions in IFRS 19 are only allowed for the unlisted subsidiaries of a parent who produces publicly available financial statements under IFRS. Thus, eventual information loss at a subsidiary level is 'compensated' by the full disclosures at a parent level. The AD, however, applies to any entity, irrespective of its place in the group and whether it is listed or not. Therefore, it uses the size criteria to define what information to disclose.

Scope: public accountability vs public interest entity

113 The scope of AD is much wider than the scope of IFRS 19. The AD addresses to all entity types across EU without distinguishing between listed and unlisted entities and their role in the group (if any). To provide proportionate reporting requirements for all the entities and for all reporting types, the AD refers to the entity size and its importance for the public interest (PIE).

114 Unlike the AD, the scope of IFRS 19 is much narrower. It addresses only subsidiaries without public accountability of listed entities reporting under IFRS. The only reporting requirement IFRS 19 deals with is disclosures when reporting under IFRS. It does not cover presentation and measurement requirements or non-financial information, as the same recognition, measurement and presentation requirements as in full IFRS Accounting Standards apply.

115 It should also be noted that the EU, Regulation (EC) No. 1606/2002 provides Member States with options to permit or require companies that are non-publicly traded in regulated markets to prepare their separate and consolidated financial statements of companies applying IFRS Accounting Standards as adopted by the EU.

116 Therefore, for an entity to be able to apply IFRS 19 it is not enough to fall within the scope of the standard; it must also be located in EU Member State that permit or require the use of IFRS in the separate and/or consolidated financial statements of companies that are non-publicly traded in regulated markets. Member States may reconsider the options used on a continued basis.

117 EFRAG notes that the current scope of the project may lead to 'inequalities' for non-publicly traded companies that currently already apply IFRS Standards. These inequalities could arise because:

(a) those that are in the scope of the project would be able to benefit from significantly fewer disclosure requirements;

(b) those that are not in the scope of the project (e.g. non-publicly traded subsidiaries that have a fiduciary capacity or non-subsidiaries single entities) will be required to prepare full disclosures from IFRS Standards.

118 In this context EFRAG stresses the call form insurance entities to apply IFRS 19 and to reduce the disclosures of IFRS 17. Unlisted stand-alone entities also expressed their interest to benefit from the reduced disclosure requirements offered by IFRS 19.

119 Appendix 1 sets out the scope of IFRS 19 (paragraphs **Error! Reference source not found.** - **Error! Reference source not found.**) and the notion of public accountability (paragraph **Error! Reference source not found.**).

120 In Europe, there is a similar notion of IFRS 19's 'public accountability', the so-called notion of 'Public Interest Entity' ('PIE') as defined in the AD. However, it should be noted that according to a study made by Accountancy Europe in 2017, there is a wide diversity of definitions of PIEs applicable across European countries. Some countries have implemented the minimum EU requirements, but others have kept or included additional entities to their national PIE definition (which is possible under article 2(1)(d) of the Accounting Directive 2013/34/EU).

121 According to Article 2 of the AD, 'public interest entities' mean undertakings within the scope of Article 1 which are:

(a) governed by the law of a Member State and whose transferable securities are admitted to trading on a regulated market of any Member State within the meaning of point (14) of Article 4(1) of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments4 ;

(b) credit institutions as defined in point (1) of Article 4 of Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions, other than those referred to in Article 2 of that Directive;

(c) insurance undertakings within the meaning of Article 2(1) of Council Directive 91/674/EEC of 19 December 1991 on the annual accounts of insurance undertakings; or

[4] Nevertheless, EU Member States have the option to require IFRS for separate or individual Financial Statements according to Regulation (EC) No 1606/2002

(d) designated by the Member States as public-interest entities, for instance, undertakings that are of significant public relevance because of the nature of their business, their size or the number of their employees.

122 Although there are many common points in the definition of public accountability in IFRS 19 and PIE in the AD (for example in both cases insurance undertakings and credit institutions are excluded), differences still remain (for example size and public relevance criteria used to define PIE).

123 Even if two notions have differences, entities applying IFRS Accounting Standards in the EU would be mainly under the scope of Article 5 of Regulation (EC) No. 1606/2002. The same applies for those that apply IAS 27 *Separate Financial Statements* in the EU.

124 However, under the same Article 5, an EU Member State can restrict the use of IFRS to PIEs (for example as done by Greece, Croatia, Slovakia). The subsidiaries located in those jurisdictions and that prepare financial statements using IFRS Accounting Standards would have to carefully analyse whether they would still be eligible to apply IFRS 19 (particularly those that are PIEs due to the nature of their business, their size or the number of their employees).

125 More details can be found in the EFRAG Secretariat's Briefing *An EU perspective on the scope of IFRS 19*.

126 For the reasons given above, EFRAG believes that provisions of IFRS 19 and its limited scope will not result in a material departure from the disclosure requirements specified in the AD for the eligible entities and will lead to high quality financial reporting.

EFRAG's initial analysis of the costs and benefits of IFRS 19

127 EFRAG first considered the extent of the work. Therefore, on the specific request of the European Commission in its endorsement request letter, the approach that EFRAG has adopted has been to carry out detailed initial assessments of the likely costs and benefits of implementing IFRS 19 in the EU, to consult on the results of those initial assessments, and to finalise those assessments in light of the comments received.

128 EFRAG notes that for the purposes of the below assessment it is important to consider that IFRS 19 is a voluntary standard and will only be applied if it is beneficial. Entities may decide to apply IFRS 19, if endorsed for use in the EU and provided that they:

(a) fall within the scope of IFRS 19; and

(b) are located in EU Member States that permit or require the use of IFRS Accounting Standards for annual financial statements in accordance with Article 5 of the EU Regulation 1606/2002.

129 Eligible entities electing to apply IFRS 19 may fall into one of the two following categories:

(a) entities already applying IFRS Accounting Standards, which will move to reduced disclosure requirements in IFRS 19;

(b) entities transitioning from local GAAP to IFRS Accounting Standards and thereby apply IFRS 19.

130 In addition, overall costs and benefits will also depend on:

(a) the set-up of the reporting systems and processes within the group;

(b) the number of subsidiaries within the group that choose to apply IFRS 19;

(c) the size and complexity of the subsidiaries' operations; and

(d) other factors, such as applicable law and regulation.

131 As a result, the costs and benefits for these entities will differ.

The number of the European entities which might be potentially impacted by IFRS 19

132 To respond to the EC request to assess the benefits of IFRS 19, EFRAG analysed the number of entities potentially impacted by IFRS 19. To illustrate potential benefits EFRAG conducted a desk top review to estimate how many companies would be affected by IFRS 19 in total within the EU, as well as the effect of the EU endorsement outside the EU.

133 The research considered:

(a) the scope of IFRS 19 and the definition of public accountability; and

(b) the use of IFRS Accounting Standards for the annual accounts and/or consolidated financial statements, both in the EU, as well as outside the EU.

134 To take into account the use of options provided in the IAS Regulation No 1606/2002, EFRAG 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: Bulgaria, Cyprus, Croatia, Czech Republic, Denmark, Estonia, Finland, Greece, Hungary, Iceland, Ireland, Italy, Lithuania, Luxembourg, Latvia, Malta, the Netherlands, Norway, Portugal, Poland and Slovenia.

135 In the EU: EFRAG considered listed parent entities located in EU/EEA countries, as well as unlisted parent entities that use IFRS Accounting Standards as an accounting practice.

136 Outside the EU: given that the adoption of IFRS Accounting Standards varies across jurisdictions, EFRAG only considered parent entities of the European subsidiaries located in countries where the use of IFRS Accounting Standards is required for all entities and required or permitted for subsidiaries.

137 The research provided the following results:

Number of entities potentially affected by IFRS 19 implementation in EU	Without considering MS options	With considering MS options
Number of EU/EEA subsidiaries with EU/EEA parent entity	128,397	70,453
Number of EU/EEA subsidiaries of non-EU/EEA parent entity	5,443	3,042
Number of non-EU/EEA subsidiaries of EU/EEA parent entity	18,186	18,186
TOTAL number of subsidiaries potentially impacted by the implementation of IFRS 19	**152,026**	**91,681**

138 According to the research the biggest population potentially affected by the implementation of IFRS 19 in EU/EEA are the unlisted European subsidiaries of the European parent companies (77%).

139 Unlisted non-European subsidiaries of the European parents represent approximately 20% and the rest is represented by the unlisted European subsidiaries of non-European parent companies.

140 Should all Member States allow or require the use of IFRS Accounting Standards, the total number of the companies affected by implementation of IFRS 19 in EU/EEA would increase by 66%.

141 EFRAG notes that the benefits of IFRS 19 will be the higher, the wider this standard is accepted and used across the EU.

The cost-benefit assessment

142 To respond to the request of the EC for a more in-depth cost-benefit analysis of how high the potential savings from implementation of IFRS 19 in the EU would be, EFRAG conducted various outreach activities with constituents for the purposes of obtaining their views on the costs and benefits of the implementation of IFRS 19 in Europe. In its approach to cost-benefit assessment EFRAG considered the results of the effects analysis of the IASB. Feedback from European constituents broadly confirmed the messages included in the IASB effects analysis.

143 EFRAG conducted two surveys – one for preparers and other types of stakeholders and one for users of financial information and organised several outreach meetings with various groups of constituents from different European jurisdictions and industries, having subsidiaries within and outside Europe. In order to improve the quality and level of feedback expected to be received, EFRAG organised a public educational event together with the IASB in the beginning of December 2024. The feedback received was mainly qualitative.

144 EFRAG notes that the quantification of the incremental costs and benefits appeared to be difficult to most of the respondents at this stage. Constituents nevertheless provided several qualitative expected costs and benefits.

145 All constituents expressed overall support for implementing IFRS 19, as it would reduce the reporting burden for eligible subsidiaries. In addition, given that the standard is optional, it will only be applied by those entities who see overall benefits in it, a disadvantage from its application is not to be expected. The detailed assessment of costs and benefits is provided below.

146 As already noted in paragraphs 129 - 131, the costs and benefits would differ depending on the situation of a subsidiary and jurisdiction in which it operates.

Costs for preparers

147 EFRAG has carried out an assessment of the cost implications for preparers resulting from IFRS 19.

148 The following incremental costs and hurdles to the implementation of IFRS 19 were identified by the constituents:

(a) Incremental one-off costs of employee training on IFRS Accounting Standards and/or IFRS 19 reduced disclosure requirements.

(b) Incremental one-off costs of changing the reporting requirements from local GAAP to IFRS for entities that decide to switch to IFRS because of IFRS 19.

(c) Incremental one-off costs associated with changes to ERP systems to accommodate the new reporting requirements.

(d) The reporting under IFRS Accounting Standards even with reduced disclosure requirements might be more extensive than reporting under local GAAP requirements and, therefore, result in additional costs.

(e) Some user groups, for example in regulated industries, might require additional disclosures which might reduce the benefits of cost reductions from IFRS 19.

(f) Some constituents considered that when the subsidiary has to submit the extensive IFRS reporting package for the consolidation purposes to the parent, the cost savings from the reduced disclosures could be very limited or even non-existent.

149 The costs below can be linked to the application of IFRS Accounting Standards in general, but are however, also relevant for the subsidiaries considering switching to IFRS from local GAAP as a result of IFRS 19:

(a) Audit costs:

(i) some jurisdictions require obligatory audit for entities reporting under IFRS Accounting Standards, whereas entities reporting under local GAAP are

exempt from audit requirements. Such audit costs might be a barrier in applying IFRS 19 or reduce the potential benefits.

(ii) Audit of annual accounts prepared under IFRS Accounting Standards is usually more expensive then under local GAAP.

(b) Costs for maintaining local GAAP records for taxation or dividend distribution purposes - some European jurisdictions base their taxation and dividend payment requirements on local GAAP reporting and thus costs savings from not having to maintain two sets of records cannot be realised.

150 However, these costs are expected to be offset by the following cost reductions:

(a) Decrease in employee costs because less time and efforts needed to prepare annual accounts with the reduced disclosures (for subsidiaries already applying IFRS).

(b) Decrease in system costs because only one set of records will have to be maintained (for subsidiaries switching from local GAAP).

(c) Decrease in audit costs due to a more centralised audit process applied.

(d) Shared service centres can be used more efficiently and further reduce overall costs due to streamlined financial reporting processes. The need for understanding of several local GAAPs and associated costs will be removed.

(e) Financial reporting under IFRS Accounting Standards may provide easier access to financing and bring cost of capital reductions.

151 Other qualitative benefits mentioned by constituents are listed in the *"Benefits for preparers and users"* section below.

152 Overall EFRAG assessment is that implementation of IFRS 19 will result in limited and mainly one-off incremental costs for the preparers which will be mostly offset by efficiency gains from either preparing annual accounts with less disclosures for IFRS preparers or from no need to have dual records for former local GAAP preparers. However, the extent of these costs will differ between the jurisdictions and depend on the local requirements in respect of taxation, dividend distribution and audit as well as on how the internal reporting processes are organised within a group (for example, if and how shared service centres are used). EFRAG also highlights that the standard is optional and is expected only applied by those who see benefits in it.

Costs for users

153 EFRAG has carried out an assessment of the cost implications for users resulting from the implementation of IFRS 19.

154 EFRAG highlights that financial statements of unlisted subsidiaries of the listed entities reporting under IFRS are of interest only to a very limited group of users. The primary users of these financial statements are the shareholders, but they already have access to all the

information needed. The bank-lenders could be another user group, but the subsidiaries are often financed either through the intercompany loans or through the lending arrangements where the parent company provides a guarantee to the lending bank. Credit rating or credit insurance agencies also focus primarily on the reporting of listed entities. Some finance providers, investors and analysts may belong to the limited group of users of subsidiaries without public accountability.

155 The following costs and disadvantages of the implementation of IFRS 19 were identified by these users:

(a) Employee costs due to familiarisation with the new reduced disclosure requirements.

(b) System changes costs to adapt to the new reduced disclosure requirements.

(c) There is a limited risk that information disclosed under IFRS 19 might be insufficient for some particular user groups, for example regulators may require additional information. It was noted that some additional voluntary disclosures might be needed to address specific needs of users. However there was a general agreement that the level of disclosures required by IFRS 19 should be sufficient in most cases.

156 Overall, EFRAG's assessment is that implementation of IFRS 19 will not result in increased costs to users, apart from some initial familiarisation efforts.

Benefits for preparers and users

157 EFRAG has carried out an assessment of the benefits for users and preparers resulting from IFRS 19.

158 Among the main benefits of applying IFRS 19 constituents noted:

(a) cost and time savings from preparing financial statements with less disclosures for entities applying IFRS;

(b) no need for dual accounting records for entities applying local GAAP and switching to IFRS;

(c) use of uniform financial reporting framework promoting consistency in accounting practices across subsidiaries and the parent entity;

(d) better financial reporting quality and more streamlined consolidation process;

(e) lower risk of errors due to the use of the same accounting framework;

(f) improved relevance and comparability of eligible subsidiaries' financial statements; and

(g) Increased efficiency of analysing and comparing financial data across subsidiaries.

159 Among other benefits constituents noted that financial statements prepared in accordance with IFRS 19 are expected to better meet users' information needs and increase investor's trust. They will be easier to analyse as users generally have better knowledge of IFRS than various local GAAPs.

160 It was also highlighted that IFRS 19 approach aligns with some jurisdictions' efforts to simplify reporting and reduce reporting burden for smaller entities. In addition, the majority of constituents, notably preparers, noted that IFRS 19 could make possible the transition to IFRS Accounting Standards for smaller entities, currently reporting under local GAAP.

161 The feedback showed appetite of entities currently outside the scope of IFRS 19, such as insurance industry or stand-alone unlisted entities, to apply the standard which proves that these entities also see benefits from a reduced disclosure framework.

162 As already noted for the costs, the extent of benefits would differ between the entities depending on their size, industry and local requirements and regulations in their jurisdiction. EFRAG highlights that benefits will be the higher the wider IFRS 19 is accepted and used across Europe.

163 In this context EFRAG notes that there might be an appetite in some EU jurisdictions to consider expanding the current use of IFRS Accounting Standards. For example Accounting Standards Committee of Germany recently published a summary report on the study to evaluate the application of IFRS in Germany conducted during March - October 2024.

164 Overall, EFRAG's assessment is that users are likely to benefit from IFRS 19, as it will increase relevance of the information and comparability between eligible subsidiaries and therefore will enhance their analysis.

165 EFRAG's assessment is that preparers will also benefit from IFRS 19, as it will reduce the reporting burden and costs for the entities who will opt to apply the standard.

Conclusion on the costs and benefits of IFRS 19

166 The feedback from the outreach activities showed an overall consensus that IFRS 19 achieves a fair balance between the costs for preparers and the information needs of users and its endorsement would be beneficial for the European entities. Furthermore, there was general agreement that benefits would outweigh costs, particularly given that IFRS 19 is a voluntary standard and it will only be applied by those entities for which it is proven beneficial.

167 However, EFRAG highlights that costs and benefits will vary across jurisdictions and entities. The benefits of comparability of financial statements and the cost savings from the use of uniform accounting framework with less disclosures will increase with wider acceptance of IFRS Accounting Standards across Europe.

168 EFRAG's overall assessment is that the benefits of the reduced disclosure framework introduced by IFRS 19 are likely to outweigh costs associated with its implementation by eligible subsidiaries.

Potential effect on European economy, including financial stability and economic growth

Assessing whether IFRS 19 is likely to have an impact on financial stability

169 According to the IASB's Effects Analysis and EFRAG's cost-benefit assessment, IFRS 19 is expected to simplify financial reporting for eligible subsidiaries, by reducing costs for the preparation of financial statements, while providing useful information to users.

170 EFRAG expects that IFRS 19 will incentivise entities to transition from local GAAPs to IFRS Accounting Standards, as it enables smaller entities previously constrained by high costs of applying full IFRS Accounting Standards and extensive disclosures, to benefit from the reduced disclosure requirements under IFRS 19.

171 However, as explained in previous sections, the scope of the standard is quite narrow and only affects specific types of entities in jurisdictions that permit or allow the use of IFRS Accounting Standards and therefore, IFRS 19 is not expected to have an impact on financial stability.

Potential effects on competitiveness: US GAAP comparison

172 For understanding the potential effects to the European economy and particularly the effect on competitiveness, a high-level comparison between the requirements under IFRS 19 and U.S. GAAP has been conducted. U.S. GAAP together with IFRS are the two primary financial reporting frameworks used worldwide. Therefore, it is important to consider whether the lack of convergence between IFRS 19 and U.S. GAAP will result in any material competitive advantage or disadvantage for European entities applying IFRS Accounting Standards.

Preparation of financial statements

173 IFRS 19 can be applied by eligible subsidiaries for their consolidated, separate or individual financial statements. Therefore, entities electing to apply IFRS 19 can benefit from reduced time and effort of preparing disclosures for these three types of financial statements.

174 In contrast, according to U.S. GAAP's Topic 810 'there is a presumption that consolidated financial statements are more meaningful than separate financial statements and that they are usually necessary for a fair presentation when one of the entities in the consolidated group directly or indirectly has a controlling financial interest in the other entities[5]'.

175 Hence, under U.S. GAAP subsidiaries are generally not required to file separate financial statements if they are included in the consolidated financial statements of their parent company, unless specific conditions apply (e.g., significant subsidiaries)[6].

Reduced disclosure requirements

176 As explained in previous sections, IFRS 19 allows eligible subsidiaries (private subsidiaries that do not meet the public accountability criteria) to prepare financial statements with reduced disclosure requirements compared to full IFRS, while maintaining the same recognition, measurement and presentation requirements as in IFRS Accounting Standards. The objective of IFRS 19 is to provide cost benefits and reporting simplifications for eligible

[5] FASB ASC 810 Consolidation (810-10-10-1)

[6] See FASB ASC 810 and SEC Regulation S-X

subsidiaries; by reducing disclosures burden and it ensures consistency in accounting policies within group streamlining the consolidation process.

177 While not directly comparable, the Private Company Council 'PCC' alternatives under U.S. GAAP offer similar benefits to private companies by simplifying accounting and disclosure requirements. Similar to IFRS 19, PCC alternatives aim to reduce the financial reporting burden for private companies by simplifying the full U.S. GAAP requirements, while addressing the needs of users.

178 However, there are some key differences between IFRS 19 and PCC alternatives:

(a) The scope of application of PCC alternatives extends beyond subsidiaries without public accountability and is aimed for all private companies;

(b) PCC alternatives focus on more specific areas of accounting, while IFRS 19 reduces disclosure requirements for a wide range of topics;

(c) Unlike IFRS 19, PCC alternatives not only reduce disclosure requirements but also simplify recognition and measurement requirements.

179 Therefore, even though PCC alternatives share similarities with IFRS 19, there is no directly comparable framework under U.S. GAAP that reduces disclosure burden specifically for subsidiaries without public accountability and to the same extent as IFRS 19. Furthermore, unlike the PCC alternatives, IFRS 19 offer significant benefits in the group consolidation process by eliminating the need for dual accounting records, as it maintains full alignment with recognition, measurement and presentation requirements in IFRS Accounting Standards.

Other considerations

180 According to SEC regulations, foreign private issuers have the option to file financial statements in accordance with IFRS (or local GAAP) with reconciliation to U.S. GAAP[7]. In those limited cases[8] where financial statements prepared in accordance with IFRS 19 are included in SEC filings, registrants are required to consider whether additional material information is needed so that the required financial statements are not misleading[9]. Therefore, under those specific circumstances additional disclosures may be needed.

181 This requirement is aligned with paragraph 6 of IFRS 19 which requires entities to assess whether additional disclosures are necessary 'to enable users of financial statements to understand the effect of transactions and other events and conditions on the entity's

[7] Rule 4-01(a)(2) of Regulation S-X

[8] For example, 'if a foreign private issuer files documents with the SEC related to a merger with a foreign business that qualifies for and elects to apply IFRS 19, and the registrant is required to provide financial statements of the foreign business, the foreign business is required by IFRS 19 to consider whether additional material disclosures need to be included in its financial statements. Source: Statement on the Application of IFRS 19

[9] Rule 4-01(a) of Regulation S-X

financial position and financial performance. Therefore, given this alignment, the practical impact of this requirement for IFRS 19 financial statements filed with the SEC is expected to be limited.

Expected effects of competitiveness on the European economy – Conclusion

182 Overall, IFRS 19 is expected to have a positive impact on competitiveness, as it reduces disclosure burden for eligible subsidiaries. Even though, there are differences in approach between IFRS 19 and U.S. GAAP they are not expected to result in competitive disadvantage for European entities:

(a) Although U.S. GAAP generally does not require subsidiaries to prepare separate financial statements, this difference existed prior to the issuance of IFRS 19. The disclosure reduction introduced by IFRS 19 is expected to improve the competitive position of IFRS 19-compliant subsidiaries that are required to prepare separate financial statements.

(b) The reduced disclosure requirements under IFRS 19 are extensive and are expected to bring significant benefits (see 'Analysis of the costs and benefits' section). Additionally, according to the IASB's Effects Analysis, similar frameworks in other jurisdictions (e.g., UK's FRS 101 Reduced Disclosure Framework and New Zealand's IFRS Reduced Disclosure Regime) have been widely used for years and proved to bring significant benefits, including cost effectiveness and assurance efficiency.

(c) No significant effects on the practical impact of the SEC's regulations requirement to provide additional disclosures under specific circumstances.

Conclusion

183 EFRAG believes that IFRS 19 will reduce the financial reporting burden and save costs for eligible subsidiaries without reducing the relevance and usefulness of the information for users of their financial statements. The standard is optional and will only be applied by those entities who see benefits in it. As such, its endorsement is conducive to the European public good in that improved financial reporting improves transparency and assists in the assessment of management stewardship.

184 EFRAG has not identified IFRS 19 could have any adverse effect to the European economy, including financial stability and economic growth.

185 Having considered all relevant aspects, including the trade-off between the costs and benefits of implementing IFRS 19, EFRAG assesses that endorsing IFRS 19 is conducive to the European public good.

Questions to EFRAG FR TEG:

186 Do you have any comments or suggestions on the drafting of Appendix 2 of the DEA?

187 Do you have any comments or suggestions on the drafting of Appendix 3 of the DEA?

188 Would you like to address any other topics in Appendix 2 or Appendix 3?