EFRAG Secretariat: Kathrin Schoene, Galina Borisova, Ioanna Michailidi, Nadia de Santis (OIC), Alessandro Ganzi

The EFRAG Secretariat research on number of entities potentially impacted by IFRS 19, if endorsed for use in the EU

Background Paper

Objective

1 The objective of this paper is to present to EFRAG FR TEG the results of EFRAG Secretariat's research to estimate the number of entities that would fall within the scope of IFRS 19 *Subsidiaries without Public Accountability: Disclosures* and could be potentially affected by the endorsement within the EU.

Introduction

2 In its Endorsement Advice Request, the European Commission ('EC') has asked EFRAG to assess how many companies would be affected by IFRS 19 in total within the EU, as well as to assess the effect of the EU endorsement outside the EU.

3 To respond to this request, the EFRAG Secretariat has conducted desktop research, using Orbis Europe database, considering the:

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

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

4 Regarding the scope, IFRS 19 shall be applied by an entity that, at the end of its reporting period[1]:

(a) Is a subsidiary (as defined in IFRS 10 *Consolidated Financial Statements*);

[1] Source: IFRS 19: *Subsidiaries without Public Accountability: Disclosures*

(b) Does not have public accountability[2]; and

(c) Has a parent that produces financial statements in accordance with IFRS Accounting Standards[3].

5 In relation to the application of IFRS Accounting Standards, the EFRAG Secretariat focused on jurisdictions that require the preparation of consolidated financial statements in accordance with IFRS, as well as require or permit the application of IFRS for annual financial statements:

(a) **In the EU:** In accordance with Regulation (EC) No 1606/2002, listed parent entities are required to prepare their consolidated financial statements in accordance with IFRS Accounting Standards. Therefore, the EFRAG Secretariat considered listed parent entities located in EU/EEA countries, as well as unlisted parent entities that use IFRS Accounting Standards as an accounting practice. In addition, the EFRAG Secretariat conducted searches with and without considering the options used by Member States on the use of IFRS for annual accounts;

(b) **Outside the EU:** Given that the adoption of IFRS Accounting Standards varies across jurisdictions, the EFRAG Secretariat 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.

6 The detailed methodology of the EFRAG Secretariat's research is described in the R*esearch Methodology* section below.

Summary of the results of the EFRAG Secretariat research

7 Applying the methodology described in the next section, the research, conducted in Orbis, provided the following results:

[2] An entity has public accountability if its debt or equity instruments are traded in a public market or if it holds assets in a fiduciary capacity for a broad group of outsiders

[3] A subsidiary is eligible if it has an ultimate or intermediate owner that produces consolidated financial statements applying IFRS Accounting Standards

Table 1: Total number of the subsidiaries potentially affected by IFRS 19 in EU

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 subsidiaries which may be eligible to apply IFRS 19	**152,026**	***91,681***

8 Table 2 provides the breakdown of the potentially affected EU/EEA subsidiaries (results of Steps 1 and 2) by country. It illustrates the effect of a potential EU endorsement per EU/EEA country, and in particular how many subsidiaries located in EU/EEA countries would fall within the scope of IFRS 19, compared to the total number of active entities in each country.

Breakdown of the subsidiaries in scope of IFRS 19 by EU/EEA country[4]

Country	Entities within the scope of IFRS 19 (without considering MS options)	Entities within the scope of IFRS 19 (with considering MS options)
Austria	3.033	X
Belgium	2.902	X
Bulgaria	1.369	1.369
Croatia	686	686
Cyprus	3.930	3.930
Czech Republic	2.138	2.138
Denmark	1.792	1.792
Estonia	1.054	1.054
Finland	24.480	24.480
France	15.711	X
Germany	19.978	X
Greece	2.267	2.267
Hungary	1.317	1.317
Iceland	261	261
Ireland	3.853	3.853
Italy	8.385	8.385
Latvia	562	562
Liechtenstein	25	25
Lithuania	738	738
Luxembourg	1.864	1.864
Malta	695	695
Netherlands	6.335	6.335
Norway	2.888	2.888
Poland	6.950	6.950
Portugal	1.536	1.536
Romania[5]	2.109	X
Slovakia[6]	964	X
Slovenia	370	370
Spain	6.849	X
Sweden	8.799	X
TOTAL (STEPS 1+2)	***133.840***	***73.495***

Research methodology

9 The research was carried out using Moody's Analytics Inc. ***Orbis Europe*** database and is based on the data extracted on 27 January 2025.

[4] Source: Orbis Europe database

[5] In Romania, unlisted non-financial entities are neither required nor permitted to use IFRS for the preparation of their annual financial statements. Only some unlisted non-financial PIEs are required to do so, which are not expected to fall within the scope of IFRS 19.

[6] In Slovakia, unlisted non-financial entities are neither required nor permitted to use IFRS for the preparation of their annual financial statements. Only unlisted non-financial PIEs are required to do so, which are not expected to fall within the scope of IFRS 19.

10 The EFRAG Secretariat used a three-step approach to estimate the number of entities that would be eligible to apply IFRS 19 in the EU/EEA countries:

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

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

(c) **STEP 3**: Subsidiaries without public accountability located **outside** EU/EEA countries, where the use of IFRS Accounting Standards is required/permitted, with the parent entity located in EU/EEA countries.

11 For the above steps, the EFRAG Secretariat has 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[7]: Bulgaria, Cyprus, Croatia, Czech Republic, Denmark, Estonia, Finland, Greece, Hungary, Iceland, Ireland, Italy, Lithuania, Luxembourg, Latvia, Malta, the Netherlands, Norway, Portugal, Poland and Slovenia.

Search criteria

12 The EFRAG Secretariat applied the below criteria to facilitate the three search steps listed above and to identify the subsidiaries that would fall within the scope of IFRS 19:

(a) **Direct control by parent entities ≥ 50,01%[8]** - to identify entities that are subsidiaries;

(b) **Unlisted entities** - to identify entities' whose debt or equity instruments are not traded in a public markets and therefore do not have public accountability;

---

[7] Source: https://finance.ec.europa.eu/document/download/1c546870-ee26-4c53-8b12-796bd0b96793_en?filename=ias-regulation-use-of-options-overview_en.pdf

[8] For simplification purposes, in our analysis a subsidiary is defined as an entity in which a parent directly holds more than 50.01% of the voting rights, ensuring clear qualification as a subsidiary. However, the EFRAG Secretariat acknowledges that control can still exist even when a parent entity owns less than 50.01%.

(c) **Corporates**[9] - to identify entities do not hold assets in a fiduciary capacity for a broad group of outsiders as part of their primary businesses; and

(d) **Entities with a parent preparing consolidated financial statements according to IFRS Accounting Standards**, both in the EU and outside the EU. The reasoning behind the different criteria applied is explained in paragraph 5:

(i) Listed parent entities located in EU/EEA countries; or

(ii) Unlisted parent entities located in EU/EEA countries, preparing consolidated financial statements in accordance with IFRS Accounting Standards; or

(iii) Parent entities located outside the EU, in jurisdictions where the application of IFRS Accounting Standards is required for all companies[10].

STEP 1: EU/EEA Subsidiaries without public accountability with EU/EEA parents

13 For performing Step 1 of the research, the EFRAG Secretariat considered subsidiaries that would fall within the scope of IFRS 19 located in EU/EEA countries, with a parent entity also located in EU/EEA countries. According to our research:

(a) **128,397** entities would be eligible to apply IFRS 19, if endorsed in the EU, without considering the options used by EU Member States;

(b) Out of which **70,453** 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: EU/EEA Subsidiaries without public accountability with parents outside EU/EEA countries

14 For performing Step 2 of the research, the EFRAG Secretariat considered subsidiaries that would fall within the scope of IFRS 19 and are located in EU/EEA countries, with a parent entity that is located outside Europe, in jurisdictions where the application of IFRS Accounting Standards is required for all companies.

15 According to our research:

---

[9] For simplification purposes, we have only included entities that qualify as 'corporates'. However, the EFRAG Secretariat acknowledges that financial entities could fall within the scope of IFRS 19, if they do not hold assets in a fiduciary capacity.

[10] Resources used for assessing which jurisdictions permit or require the use of IFRS Accounting Standards: https://www.iasplus.com/en/resources/ifrs-topics/use-of-ifrs

(a) **5,443** 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 **3,042** 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 3: Subsidiaries without public accountability outside EU/EEA countries with EU/EEA parents

16 For performing Step 3 of the research, the EFRAG Secretariat considered the effects of the potential EU endorsement of IFRS 19 outside the EU. Therefore, Step 3 considered subsidiaries located in jurisdictions where IFRS Accounting Standards are required or permitted for all entities, and hence it is possible to apply IFRS 19, with a parent entity located in EU/EEA countries.

17 The results of Step 3 showed that **18,186** entities would be able to apply IFRS 19, if endorsed in the EU.

18 For Step 3, the EFRAG Secretariat has not considered the options used by EU Member States as it is irrelevant, and the search focused only on jurisdictions outside Europe where entities are required or permitted to prepare annual financial statements in accordance with IFRS Accounting Standards.