IFRS Accounting

Staff paper

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Project	**Updating IFRS 19 *Subsidiaries without Public Accountability: Disclosures***
Topic	**Considering reductions in disclosure requirements**
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Purpose of this paper

1. This paper responds to feedback on the Exposure Draft *Amendments to IFRS 19 Subsidiaries without Public Accountability: Disclosures* (Exposure Draft) and summarises staff recommendations for where the proposals in the Exposure Draft should be confirmed and where disclosure requirements might be reduced further when amendments are made to IFRS 19 *Subsidiaries without Public Accountability: Disclosures*.

2. Agenda Paper 32A *General issues and approach to redeliberations* summarised the IASB's discussions in January 2025 and the approach to redeliberations of the Exposure Draft, considering the time constraints associated with finalising the amendments promptly, and the limited scope of the project.

Structure of the paper

3. The paper is structured as follows:

   (a) disclosure requirements from IFRS 18 *Presentation and Disclosure in Financial Statements* (paragraphs 5–9);

   (b) supplier finance arrangements (paragraphs 10–21);

   (c) Pillar Two model rules (paragraphs 22–31);

   (d) lack of exchangeability (paragraphs 32–40);

   (e) financial instruments classification and measurement (paragraphs 41–50);

   (f) summary of staff recommendations (paragraph 51); and

   (g) next steps (paragraph 52).

4. A staff recommendation and question for IASB members is included at the end of each section of the paper.

Disclosure requirements from IFRS 18

Proposals and feedback

5. In the Exposure Draft, the IASB proposed making two changes to the disclosure requirements from IFRS 18 that are included in IFRS 19:

   (a) replace the disclosure requirements on management-defined performance measures with a single requirement that any eligible subsidiary that uses these measures provide all the disclosures required by IFRS 18; and

   (b) delete the disclosure objective in paragraph 137 of IFRS 19 referring to non-current liabilities with covenants.

6. Most respondents supported both of these proposals. There were some comments on the assertion of limited relevance of management defined performance measures to subsidiaries. However, in the staff's view these issues need not affect the proposal

since any subsidiaries that do not use these measures will not be required to provide the related disclosures. If it was the case that no eligible subsidiaries use management-defined performance measures then the reference to IFRS 18 would be unnecessary–but since some do use these measures the choice to refer to IFRS 18 appears an economical way to ensure the new disclosure requirements will be satisfied.

Potential further reductions

7. When the IASB developed the proposed disclosure reductions in March 2024[1], it considered whether other reductions were possible, looking only at requirements that were new in IFRS 18 and not those that had been carried forward from IAS 1 *Presentation of Financial Statements*.

8. Many of the new requirements in IFRS 18 relate to disaggregation, which has been identified as one of the principles for reducing disclosure requirements. Considering the importance of disaggregation, the staff did not identify any other requirements in IFRS 18 where reduction would be consistent with the IASB's reduced disclosure principles.

Staff recommendation

9. The staff recommends that the IASB confirms its proposals in the Exposure Draft with respect to IFRS 18 disclosure requirements.

Question 1 for the IASB
Does the IASB agree with the staff recommendation in paragraph 9?

[1] Agenda Paper 32A *Disclosure requirements from the new PFS Standard* of the March 2024 IASB meeting.

Supplier finance arrangements

Proposals and feedback

10. In the Exposure Draft, the IASB proposed three changes to the disclosure requirements from IAS 7 *Statement of Cash Flows* relating to supplier finance arrangements:

    (a) delete the disclosure objective in paragraph 167 of IFRS 19;

    (b) delete the reference in paragraph 168 of IFRS 19 to the disclosure objective; and

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

11. Most respondents to the Exposure Draft agreed with deleting the disclosure objective and references to it in paragraphs 167–168 of IFRS 19.

12. Respondents who commented on adding the description in paragraph 167A of IFRS 19 had mixed views. Some said that it was helpful and provided clarity, particularly as supplier finance arrangements had been newly described in IAS 7. Around the same number of respondents expressed the view that entities needing to understand what a supplier finance arrangement is could look to IAS 7 and observed that the IASB had stated in the development of IFRS 19 that 'guidance paragraphs' should not be included in the Standard.

13. In contrast, one respondent that supported including the paragraph was of the view that a wider review of IFRS 19 should include the IASB's decision not to include guidance in the Standard–that is to say, it is an apparent disagreement with the IASB's general approach relating to guidance, rather than a specific interest in this definition.

Potential further reductions

14. Many respondents had suggestions for further disclosure reductions, including removing the requirement in paragraph 168(b)(ii) to disclose the carrying amount of liabilities from supplier finance arrangements at the beginning and end of the period, on the grounds that obtaining the information could be challenging. One respondent also suggested removing sub-paragraphs 168(b)(iii) and 168(c) that require the disclosure of the range of payment due dates, and type and effect of non-cash changes in the carrying amounts of liabilities relating to supplier finance arrangements.

Staff analysis and recommendation

15. On including the definition of supplier finance arrangements that the IASB had proposed adding as a new paragraph 167A, in the staff's view, there is an opportunity here to reinforce the IASB's decision described in paragraph BC53 of the Basis for Conclusions on IFRS 19:

> The disclosure requirements in IFRS Accounting Standards are sometimes accompanied by guidance on how to satisfy those requirements, either in paragraphs accompanying the disclosure requirements or in a separate section of application guidance or implementation guidance. In feedback on the Exposure Draft, some preparers said they found this guidance helpful. The IASB considered this feedback and discussed whether to reproduce some or all of the guidance in IFRS 19. The IASB decided that reproducing the guidance would be inappropriate because it could hinder readability of IFRS 19, removing one of the benefits of a reduced disclosure standard. In making this decision, the IASB considered listing cross-references to all applicable guidance but agreed this would add an unnecessary level of detail because preparers would need to refer to individual Standards to access the relevant guidance. The IASB noted that the disclosure requirements in IFRS 19 are based on those in other IFRS

Accounting Standards. Therefore, any relevant guidance in other IFRS Accounting Standards is also available to subsidiaries applying IFRS 19.

16. Entities applying IFRS 19 apply the recognition and measurement requirements in other IFRS Accounting Standards, including one definition in IFRS 19 does not create an efficiency for subsidiaries, and would diverge from the approach that the IASB had previously agreed.

17. Suggestions from respondents to reduce the requirements in paragraph 168 of IFRS 19 are based on the cost of collecting information to prepare these disclosures. In general subsidiaries will need to prepare a reporting package for their parent to use in consolidation. The staff think whether a subsidiary includes the information required by paragraph 168 of IFRS 19 in its reporting pack depends:
    (a) if the subsidiary arranges the supplier finance arrangements itself, it is likely that it will report the amounts to the group. However, if the amounts are only material to the subsidiary, not to the group, this might not be the case.
    (b) if the group arranges the supplier finance arrangement, then the subsidiary will either need to obtain the information from the group or from the finance provider itself.

18. If the situation in paragraph 17(a) applies, this means the information is already being collected and is unlikely to give rise to significant further cost, unless the subsidiary has not previously included supplier finance information in the group reporting pack on the grounds of materiality. If, on the other hand, the situation in paragraph 17(b) applies, collecting the information to disclose it in individual accounts will be an extra cost to the subsidiary.

19. If the information required by paragraph 168 of IFRS 19 was low-value to users, then the benefits might not outweigh the cost. However, in the case of supplier finance arrangements, the disclosure requirements are mostly related to liquidity and cash flows, which are one of the principles for reduced disclosure requirements. As such

there is a high benefit to users of being able to access this information in the financial statements of a subsidiary. When these high benefits are compared to the potentially modest costs the disclosure requirements appear proportionate. However, if subsidiaries are very small in comparison to their groups, the costs will be higher and the cost-benefit assessment will be different.

20. When the IASB developed the proposals in the Exposure Draft, it considered excluding paragraph 168(b)(iii) of IAS 19[2], relating to the range of payment due dates. At that time, the staff suggested deleting this disclosure because although it would give some information about liquidity, compiling the information would involve costs for subsidiaries and these costs would outweigh benefit of the information to users of subsidiaries' financial statements. As noted in paragraph 14 of this paper, one respondent also suggested removing this sub-paragraph. Given this feedback and previous discussions the staff recommend deleting sub-paragraph168(b)(iii) of IFRS 19.

21. The staff recommend that the IASB confirm its proposals in the Exposure Draft with respect to supplier finance arrangements, except it withdraws its proposal to add the definition of a supplier finance arrangement in paragraph 167A and deletes sub-paragraph 168(b)(iii) of IFRS 19.

Question 2 for the IASB
Does the IASB agree with the staff recommendation in paragraph 21?

[2] Agenda Paper 32 *Reviewing disclosure requirements* of the January 2024 IASB meeting

Pillar Two model rules

Proposal and feedback

22. In the Exposure Draft, the IASB proposed two changes to the disclosure requirements from IAS 12 *Income Taxes* relating to Pillar Two:

    (a) delete the disclosure objective in paragraph 198 of IFRS 19 that an entity discloses known or reasonably estimable information that helps users of financial statements understand the entity's exposure to Pillar Two income taxes arising from that legislation; and

    (b) delete the reference to a disclosure objective in paragraph 199 of IFRS 19.

23. Paragraphs 198 and 199 relate to periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect. The amendments proposed in the Exposure Draft are shown here:

    198 [Deleted]~~In periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect, an entity shall disclose known or reasonably estimable information that helps users of financial statements understand the entity's exposure to Pillar Two income taxes arising from that legislation.~~

    199 In periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect, an entity shall disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. ~~To meet the disclosure objective in paragraph 198, an entity shall disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period.~~ This information does not have to reflect all the specific

> requirements of the Pillar Two legislation and can be provided in the form of an indicative range. To the extent information is not known or reasonably estimable, an entity shall instead disclose a statement to that effect and disclose information about the entity's progress in assessing its exposure.

24. Most respondents agreed with the IASB's proposal to delete the disclosure objective, and also said the remaining disclosure requirements were sufficient and clear.

25. A few respondents disagreed with the proposal; one respondent said that arguably Pillar Two disclosure requirements, relating as they do to income taxes in a group situation, should not be included at all. The same respondents observed that Pillar Two taxes are already effective and that temporary exemptions would therefore not be appropriate.

Potential additions and further reductions

26. Other comments included:

    (a) Some respondents suggested IFRS 19 should include the illustrative examples in paragraphs 88C–88D of IAS 12.

    (b) One respondent asked the IASB to consider including an exemption from the requirements in paragraphs 198–199 of IFRS 19 for entities whose parent includes the information in its consolidated financial statements. This type of exemption was discussed in Agenda Paper 32A and is a potential change that is outside the scope of this project.

    (c) Others asked for paragraph 199 of IFRS 19 to be amended to delete the reference to 'qualitative and quantitative information'.

    (d) One respondent asked that the phrase 'known or reasonably estimable' was included before 'qualitative and quantitative information', on the grounds that

this phrase was included in the disclosure objective which the IASB proposed to delete

*S*taff analysis and recommendations

27. In the staff's view, including illustrative examples from paragraphs 88C–88D of IAS 12 (see paragraph 26(a) of this paper) would breach the IASB's decision not to include guidance material from other IFRS Accounting Standards in IFRS 19.

28. In response to the suggestion that the IASB permit an exemption from the requirements in paragraphs 198–199 of IFRS 19 if the information is disclosed in the consolidated financial statements of the subsidiary's parent (see paragraph 26(b) of this paper), the staff note the disclosure requirements in paragraph 198–199 of IFRS 19 can be analysed in two different ways:

    (a) One argument is that they provide predictive information about cash flows and thus satisfy the principles for developing reduced disclosures because cash flows are important to users.

    (b) The other argument is that the requirements are already of limited relevance because the Pillar Two rules are already in effect in many jurisdictions. Even this argument can be further subdivided: if the requirements are relevant to only a few entities, they might be excluded for this lack of relevance, or included because for most entities there is no additional reporting burden.

29. In a future review of IFRS 19, if the disclosure requirements have become entirely irrelevant, the Standard could at that point be amended and the disclosure requirements deleted. The IFRS Foundation website states that the IASB continues to monitor developments related to the implementation of the Pillar Two model rules. It plans to undertake further work to determine whether to remove the temporary exception—or to make it permanent—after there is sufficient clarity about how jurisdictions implemented the rules and the related effects on entities. For this reason, in the staff's view the disclosure requirements in paragraph 199 should remain in

IFRS 19 for the moment, and entities for which they are not relevant will not have to provide any disclosures.

30. Assuming the IASB decides to confirm its proposal to delete paragraph 198 of IFRS 19 and incorporate some of its text into paragraph 199, the staff recommend accepting the suggestion in paragraph 26(c) of this paper to modify the phrase 'qualitative and quantitative information' by preceding it with 'known or reasonably estimable': this ensures that the requirements for eligible subsidiaries are not more onerous than those for entities applying the disclosure requirements in IAS 12 directly because they are not required to look beyond what is reasonably estimable.

31. On balance, the staff recommend that the IASB confirm its the proposals in the Exposure Draft with respect to Pillar Two model rules subject to the addition of the phrase 'known or reasonably estimable' into paragraph 199.

Question 3 for the IASB
Does the IASB agree with the staff recommendation in paragraph 31?

Lack of exchangeability

Proposals and feedback

32. In the Exposure Draft, the IASB proposed two changes to the disclosure requirements from IAS 21 *The Effects of Changes in Foreign Exchange Rates* relating to lack of exchangeability:

    (a) delete the disclosure objective in paragraph 221 of IFRS 19; and

    (b) delete references to the amount of detail necessary to satisfy that objective in paragraph 222 of IFRS 19.

33. Almost all respondents agreed with deleting the disclosure objective and said that the remaining requirements were sufficient and clear. One respondent asked for more explanation in the Basis for Conclusions.

34. Four respondents asked the IASB to consider deleting the disclosure requirement in paragraph 223(f) of IFRS 19 relating to disclosure of qualitative information about each type of risk that the entity is exposed to because the currency is not exchangeable into another currency, and the nature and carrying amount of assets and liabilities exposed to each type of risk.

Potential further reductions

35. One respondent observed that the requirements in paragraph 224 of IFRS 19 are 'quite detailed' but did not suggest reductions, asking instead that the IASB explain its rationale for including them in the Standard.

36. The requirement to disclose summarised financial information about a foreign operation in paragraph A20(b) of IAS 21 (paragraph 224(b) of IFRS 19) is consistent with the requirement to provide summarised financial information in paragraphs B10 or B12–B13 of IFRS 12 *Disclosure of Interests in Other Entities* (see paragraph BC59 of IAS 21). However, the IASB decided, in developing the disclosure requirements in IFRS 19 pertaining to IFRS 12, not to require the disclosure of summarised financial information as required in paragraphs B10 or B12–B13 of IFRS 12.

Staff analysis and recommendation

37. The suggestion to delete paragraph 223(f) of IFRS 19 (see paragraph 34 of this paper) is consistent with the principles for reducing disclosure requirements because it does not directly provide information in which users of subsidiaries' financial statements are interested. Even without the qualitative disclosures, the requirements in paragraphs 221–222 and the remaining parts of paragraph 223 of IFRS 19 would provide information to users about cash flows and liquidity.

38. Removing paragraph 223(f) eases the disclosure burdens on subsidiaries without significant loss of the information that is important to users of subsidiaries' financial statements. The staff's recommendation to delete paragraph 223(f) is consistent with a previous recommendation in January 2024.

39. In the staff's view, deleting the requirement in paragraph 224(b) of IFRS 19 (see paragraph 36 of this paper) would be consistent with the decision previously taken relating to IFRS 12. This would demonstrate the IASB's commitment to applying its principles consistently. Arguably, requiring such disclosure in IFRS 19 would entail greater effort from eligible subsidiaries who are not required to provide summarised financial information in accordance with IFRS 12.

40. Therefore, the staff recommend that the IASB confirm its proposals in the Exposure Draft with respect to lack of exchangeability, and also delete:

    (a) the requirement in paragraph 223(f) of IFRS 19 to disclose qualitative information about each type of risk to which the entity is exposed because the currency is not exchangeable into the other currency, and the nature and carrying amount of assets and liabilities exposed to each type of risk; and

    (b) the requirement in paragraph 224(b) of IFRS 19 to disclose summarised financial information for foreign operations.

Question 4 for the IASB
Does the IASB agree with the staff recommendation in paragraph 40?

Financial instruments classification and measurement

Proposals and feedback

41. Paragraphs 56A–56C of IFRS 19 were added by *Amendments to the Classification and Measurement of Financial Instruments* issued in May 2024 (amendments to IFRS 7). The paragraphs require disclosures relating to the effect of contractual terms that could change the amount of contractual cash flows as a result of a contingent event that does not directly relate to basic lending risks and costs (such as the time value of money or credit risk).

42. The IASB did not propose to reduce the disclosure requirements because these disclosures provide users of eligible subsidiaries' financial statements with information about cash flows and obligations, as well as solvency and liquidity.

43. Most respondents supported the IASB's proposal not to reduce these disclosure requirements. However, two respondents asked whether paragraph 56A of IFRS 19 should be analysed as a disclosure objective and therefore deleted. One respondent disagreed with the requirements added by the amendments to IFRS 7 and therefore also did not support the inclusion in IFRS 19.

Potential further reductions

44. Two respondents suggested removal or amendment of paragraph 56C which they said could be read as an example rather than a disclosure requirement.

Staff analysis and recommendation

45. As noted in paragraph 42 of this paper, the disclosure requirements added by the amendment to IFRS 7 relate to contractual cash flows; information cash flows are one of the IASB's principles for reducing disclosures. This means there is a strong presumption that all of the requirements are necessary.

46. In response to the comment in paragraph 43 of this paper, paragraph 56A of IFRS 19 as drafted says:

> An entity shall disclose the information required by paragraph 56B by class of financial assets measured at amortised cost or fair value through other comprehensive income and by class of financial liabilities measured at amortised cost. The entity shall consider how much detail to disclose, the appropriate level of aggregation or disaggregation, and whether users of financial statements need additional explanations to evaluate any quantitative information disclosed.

47. There is no clear disclosure objective in paragraph 56A of IFRS 19. The first sentence explains what is to be disclosed and the level of disaggregation to be applied to the requirements in paragraph 56B. The second could be argued as being akin to guidance as the disclosure requirement involves a level of judgement in deciding the appropriate level of disaggregation. The IASB's decision to avoid guidance generally was in part driven by an aim not to require judgement but instead to give objective requirements, so this could be an argument for removing the second sentence of the paragraph.

48. In the staff's view, although there is an argument (as described in paragraph 15 of this paper) for removing the second sentence of paragraph 56A, in practice it is likely to be helpful to preparers, and therefore should not be deleted.

49. There is also an argument for amending paragraph 56C (see paragraph 44 of this paper), but on balance it appears to be in the nature of helpful clarification that follows directly from the preceding paragraphs. Removing it would be consistent with the principle of not including any guidance, but most respondents did not request exclusion therefore in the staff's view it should not be changed.

50. The staff recommends that the IASB confirm its proposals in the Exposure Draft with respect to *Amendments to the Classification and Measurement of Financial Instruments*, making no further changes.

Question 5 for the IASB
Does the IASB agree with the staff recommendation in paragraph 50?

Summary of staff recommendations

51. The staff recommends the IASB confirms its proposals in the Exposure Draft except it:

    (a) withdraws the proposed new paragraph 167A to IFRS 19, the definition of a supplier finance arrangement;

    (b) deletes sub-paragraph 168(b)(iii) of IFRS 19, the range of payment due dates for both the financial liabilities disclosed and comparable trade payables that are not part of a supplier finance arrangement;

    (c) adds the phrase 'known or reasonably estimable' into paragraph 199 of IFRS 19, with respect to Pillar Two model rules;

    (d) deletes the requirement in paragraph 223(f) of IFRS 19 to disclose qualitative information about each type of risk to which the entity is exposed because the currency is not exchangeable into the other currency, and the nature and carrying amount of assets and liabilities exposed to each type of risk; and

    (e) deletes the requirement in paragraph 224(b) of IFRS 19 to disclose summarised financial information for foreign operations when a foreign operation's functional currency is not exchangeable into the presentation currency.

Next steps

52. Subject to the IASB agreeing the recommendations in this paper, we plan to ask for permission to start the balloting process for the amendments to IFRS 19 at the March 2025 IASB meeting, with the aim of issuing amendments in H2 2025.