

IFRS Developments

The IASB issues IFRS 19 *Subsidiaries without Public Accountability: Disclosures*

What you need to know

- ▶ Subsidiaries without public accountability of a parent that prepares consolidated financial statements available for public use are eligible to apply IFRS 19.
- ▶ IFRS 19 enables eligible entities to provide reduced disclosures compared to the requirements in other IFRS accounting standards.
- ▶ Entities that elect IFRS 19 are still required to apply the recognition, measurement and presentation requirements of other IFRS accounting standards.
- ▶ IFRS 19 is effective for reporting periods beginning on or after 1 January 2027, with early application permitted.

Highlights

On 9 May 2024, the International Accounting Standards Board (the Board) issued IFRS 19 *Subsidiaries without Public Accountability: Disclosures*, which allows eligible entities to elect to apply IFRS 19's reduced disclosure requirements while still applying the recognition, measurement and presentation requirements in other IFRS accounting standards.

The application of the standard is optional for eligible entities.

An entity applying IFRS 19 is required to disclose that fact as part of its general IFRS accounting standards compliance statement.

The standard will become effective for reporting periods beginning on or after 1 January 2027, with early application permitted. In the first year of applying IFRS 19, an entity is required to disclose comparative information for current year amounts as required by IFRS 19, unless IFRS 19 or another IFRS accounting standard permits or requires otherwise.

A reduced disclosure framework

The standard was developed as a result of the responses to the Board's *Request for Views: 2015 Agenda Consultation*; respondents had suggested that the Board consider permitting subsidiaries of a parent that prepares consolidated financial statements available for public use, which comply with IFRS accounting standards, to apply IFRS accounting standards with reduced disclosure requirements. Respondents noted that although the *IFRS for SMEs* accounting standard has fewer disclosure requirements, its recognition and measurement requirements differ from those in IFRS accounting standards, requiring a subsidiary that applies the *IFRS for SMEs* accounting standard to maintain additional accounting records, in order to meet the group reporting requirements of its parent.

The Board undertook this project to reduce the cost of preparing financial statements under IFRS accounting standards for subsidiaries that are not publicly accountable and to improve the application of IFRS accounting standards within groups while maintaining the usefulness of the information provided. The Board believes that the usefulness of the financial statements is maintained because the disclosures would be tailored to the needs of users of the subsidiaries' financial statements by removing certain disclosures that are more relevant for publicly accountable entities.

Key features of the standard

Objective of the standard

The objective of the standard is to allow eligible entities to apply the reduced disclosure requirements set out in IFRS 19

The objective of the standard is to allow eligible entities to apply the reduced disclosure requirements set out in IFRS 19, while still applying the recognition, measurement and presentation requirements in other IFRS accounting standards to its financial records used for group reporting. Unless otherwise specified, eligible entities that elect to apply IFRS 19 will not need to apply the disclosure requirements in other IFRS accounting standards.

Eligible entities

An entity may elect to apply IFRS 19 if at the end of the reporting period:

- ▶ It is a subsidiary as defined in IFRS 10 *Consolidated Financial Statements*;
- ▶ It does not have public accountability; and
- ▶ It has a parent (either ultimate or intermediate) that prepares consolidated financial statements, available for public use, which comply with IFRS accounting standards.

An eligible entity (including an intermediate parent) can apply IFRS 19 in its consolidated, separate or individual financial statements. IFRS 19 is applicable for both annual and interim reporting.

Public accountability

IFRS 19 uses the same language as the *IFRS for SMEs* accounting standard by stating that an entity has public accountability if "its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market" or it "holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses".

Entities that fall within the 'holding assets in a fiduciary capacity' criteria must do so for the purposes of their primary business (for example, as is typically the case for banks, insurance companies and mutual funds). Entities that hold assets in a fiduciary capacity for reasons that are incidental to their primary business are not publicly accountable (for example, this might be the case for travel or real estate agents and utility companies that receive payments in advance of delivery of the goods or services).

Voluntary application

An entity that meets the requirements to apply IFRS 19 as described above may apply the standard on a voluntary basis. An entity may revoke its election to apply IFRS 19 at any time, in which case, it would be required to prepare financial statements providing the disclosures set out in other IFRS accounting standards. IFRS 19 allows for an entity to elect to apply the standard more than once, enabling entities that have revoked their election to reapply it in a later period.

Statement of compliance

IFRS 19 requires that an entity discloses the fact that it is applying the standard as part of its general compliance statement. IFRS 19 requires an entity whose financial statements comply with IFRS accounting standards and the disclosure requirements in IFRS 19 to make an explicit and unreserved statement of such compliance.

For topics where recognition and measurement requirements are the same, the disclosure requirements in the *IFRS for SMEs* accounting standard have been used in IFRS 19 with the wording aligned to that used in other IFRS accounting standards. In cases of different recognition and/or measurement requirements in the *IFRS for SMEs* accounting standard, the disclosure requirements in IFRS 19 have been tailored applying the principles used in developing disclosure requirements in the *IFRS for SMEs* accounting standard.

Disclosure requirement principles

Since subsidiaries without public accountability are a subset of small and medium-sized entities (SMEs), the Board considered the disclosure requirements in the *IFRS for SMEs* accounting standard as a starting point. However, there are recognition and measurement differences for certain topics between the *IFRS for SMEs* accounting standard and other IFRS accounting standards. For topics where recognition and measurement requirements are the same, the disclosure requirements in the *IFRS for SMEs* accounting standard have been used in IFRS 19 with the wording aligned to that used in other IFRS accounting standards. In cases of different recognition and/or measurement requirements in the *IFRS for SMEs* accounting standard, the disclosure requirements in IFRS 19 have been tailored applying the principles used in developing disclosure requirements in the *IFRS for SMEs* accounting standard.

The Board used broad principles regarding the information needs of users when developing the accounting standard, assuming among other things that users are interested in information about:

- ▶ Short-term cash flows, liquidity, solvency, obligations, and commitments or contingencies (whether or not they are recognised as liabilities)
- ▶ Measurement uncertainties and an entity's accounting policy choices
- ▶ Disaggregation of amounts presented in the financial statements

Furthermore, the Board noted that some disclosures in other IFRS accounting standards are more relevant to investment decisions in public capital markets than to transactions, other events and conditions encountered by typical eligible subsidiaries.

Disclosure requirements and references to other IFRS accounting standards

The disclosure requirements in IFRS 19 are organised into subheadings by IFRS accounting standards. Some disclosure requirements in IFRS accounting standards (e.g., those embedded in paragraphs that include recognition, measurement or presentation requirements) remain applicable and these are specified under the subheading of each IFRS accounting standard. For example, the subsection related to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* includes a paragraph labelled "Disclosure requirements in IFRS 5 that remain applicable" with specific references to IFRS 5 paragraphs that are still applicable.

IFRS 19 disclosures exclude IFRS 8 *Operating Segments*, IFRS 17 *Insurance Contracts* and IAS 33 *Earnings per Share*. Therefore, if an entity that applies IFRS 19 is required to apply IFRS 17 or elects to apply IFRS 8 and/or IAS 33, that entity would be required to apply all the relevant disclosure requirements in those standards.

Similarly, a new or amended IFRS accounting standard may include transitional disclosure requirements (i.e., those disclosures required in the first year of application of a new or amended IFRS accounting standard). IFRS 19 indicates that any relief from such transitional disclosure requirements will be set out in the new or amended IFRS accounting standard.

How we see it

IFRS 19 makes reference to the specific disclosure requirements of other IFRS accounting standards that are applicable for the various subsections. Therefore, entities will need to refer to other IFRS accounting standards for the disclosure requirements of those IFRS accounting standards and the relevant guidance on how to satisfy them. As such, IFRS 19 is not a 'stand-alone' accounting standard.

Overarching principle of materiality

Eligible entities that elect to apply IFRS 19 do not need to provide a disclosure specified by IFRS 19, if the information resulting from that disclosure is not material. However, entities need to consider whether to provide additional disclosures when compliance with the specific requirements in IFRS 19 is insufficient to enable users to understand the effect of transactions and other events and conditions on the entity's financial position and financial performance.

Effective date and transition

IFRS 19 is effective for reporting periods beginning on or after 1 January 2027 and earlier application is permitted. If an eligible entity chooses to apply the standard earlier, it is required to disclose that fact.

An entity is required, during the first period (annual and interim) in which it applies the standard, to disclose comparative information for current year amounts as required by IFRS 19, unless IFRS 19 or another IFRS accounting standard permits or requires otherwise. If relevant, an entity will include comparative information for narrative and descriptive information. Similarly, an entity that revokes its election to apply IFRS 19 will need to provide comparatives for all amounts disclosed under the requirements in other IFRS accounting standards.

If an entity that applied IFRS accounting standards in the immediately preceding period, elects to apply IFRS 19 in the current period, the requirements in IFRS 1 *First-time Adoption of International Financial Reporting Standards* and the requirements for changes in accounting policies in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*¹ will not be applicable. Similarly, if an entity revokes its election (or is no longer eligible) to apply IFRS 19 but continues to apply IFRS accounting standards, the requirements of IFRS 1 and the requirements of IAS 8 for changes in accounting policies would not be applicable.

Expected 'catch-up' amendments

In developing the disclosure requirements in IFRS 19, the Board considered the disclosure requirements in other IFRS accounting standards as at 28 February 2021. IFRS 19 currently does not contain reduced versions of any disclosure requirements that were amended or added to IFRS accounting standards after that date. Consequently, the Board indicated it will publish an Exposure Draft setting out whether and how to reduce the disclosure requirements of these post-28 February 2021 amendments and additions for the purpose of updating IFRS 19.

How we see it

Early application of IFRS 19 is permitted and the standard does not impact recognition and measurement. Since the standard will reduce the disclosure requirements for eligible entities, we anticipate that eligible preparers may consider early adopting the standard, if endorsed in the relevant jurisdiction.

1 The title of IAS 8 will change to "Basis of Preparation of Financial Statements" when IFRS 18 Presentation and Disclosure in Financial Statements becomes effective.

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization and may refer to one or more of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

About EY Global Corporate Reporting Services Group

A global set of accounting and sustainability disclosure standards provides the global economy with one measure to assess and compare the financial position and performance of entities, and the sustainability-related factors affecting them. For entities applying or transitioning to International Financial Reporting Standards (IFRS) – which includes IFRS Accounting Standards and IFRS Sustainability Disclosure Standards (collectively, IFRS Standards) – authoritative and timely guidance is essential to navigating IFRS Standards that continue to develop and evolve. The EY Global Corporate Reporting Services Group has helped develop international resources – people and knowledge – to support the application and interpretation of IFRS accounting and sustainability disclosure standards. In doing so, the EY Global Corporate Reporting Services Group provides deep subject matter knowledge and broad sector experience to the market, including the latest insights from the global EY network

© 2024 EYGM Limited.

All Rights Reserved.

This publication contains copyright material of the IFRS® Foundation in respect of which all rights are reserved. Reproduced by EY with the permission of the IFRS Foundation. No permission granted to third parties to reproduce or distribute. For full access to IFRS Standards and the work of the IFRS Foundation please visit <http://eifrs.ifrs.org>

EYG No. 004381-24GbI

ED None

In line with EY's commitment to minimize its impact on the environment, this document has been printed on paper with a high recycled content.

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com