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## Accounting Standards Advisory Forum meeting

Date	March 2024
Project	<b>Subsidiaries without Public Accountability: Disclosures</b>
Topic	<b>Overview of the Subsidiaries Standard</b>
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This paper has been prepared for discussion at a public meeting of the Accounting Standards Advisory Forum (ASAF). This paper does not represent the views of the International Accounting Standards Board (IASB) or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS<sup>®</sup> Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB<sup>®</sup> *Update*.

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## Purpose of the session

To provide ASAF members with an overview of the future IFRS Accounting Standard *Subsidiaries without Public Accountability: Disclosures* (Subsidiaries Standard) and its expected effects.

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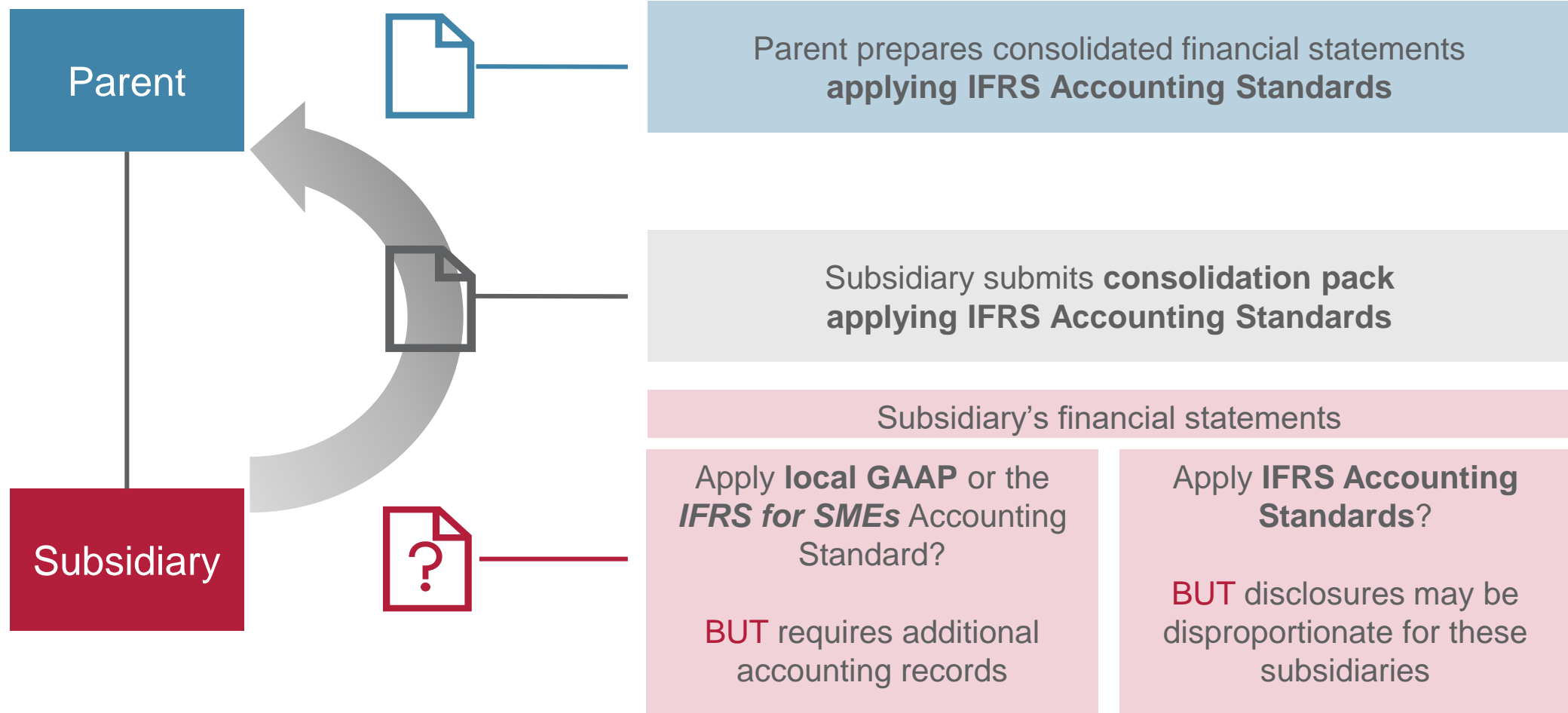
# Structure

- 1 Why the IASB undertook the project
- 2 The Subsidiaries Standard
- 3 How the Subsidiaries Standard will be kept up-to-date
- 4 Expected effects of the Subsidiaries Standard
- 5 Interaction with the future Primary Financial Statements Standard

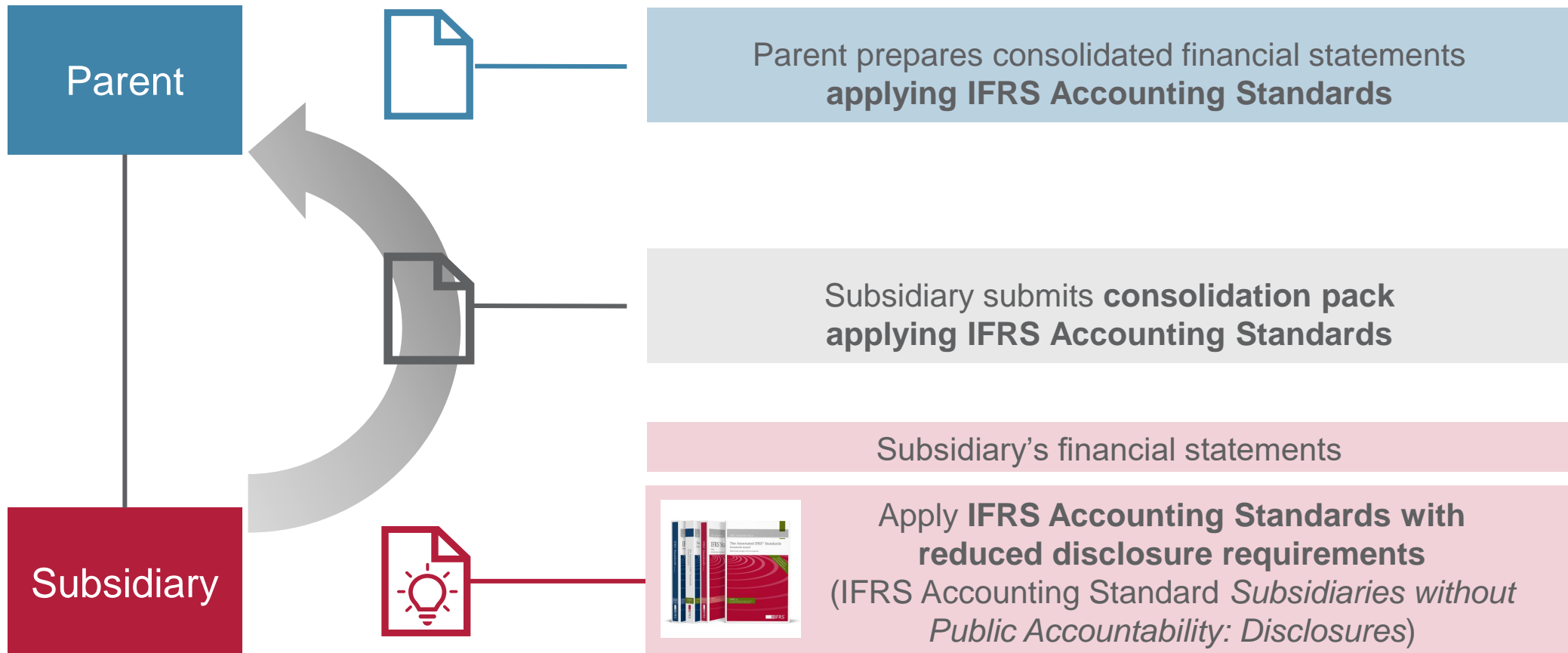
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# Why the IASB undertook the project

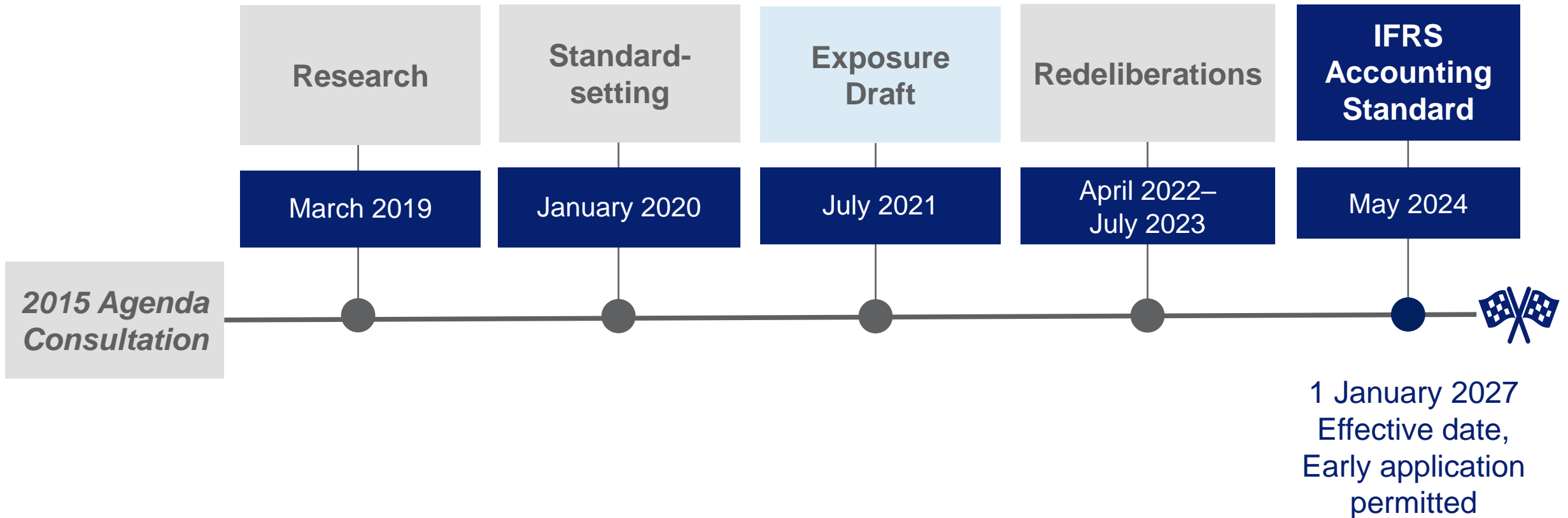
## Why the IASB undertook the project—the problem



## Why the IASB undertook the project—the solution



# Project timeline

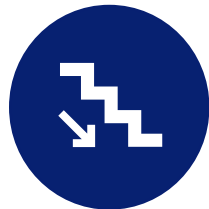


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## Key facts about the Subsidiaries Standard



Voluntary IFRS Accounting Standard



The Subsidiaries Standard:

- will simplify reporting systems and processes for companies reducing the costs of preparing eligible subsidiaries' financial statements
- will maintain the usefulness of those financial statements for their users





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# The Subsidiaries Standard

## Who can apply the Subsidiaries Standard?

### Eligible subsidiaries

An eligible subsidiary is an entity:

- that does **not have public accountability**; and
- whose parent prepares consolidated financial statements available for public use that comply with IFRS Accounting Standards.

### What is public accountability?



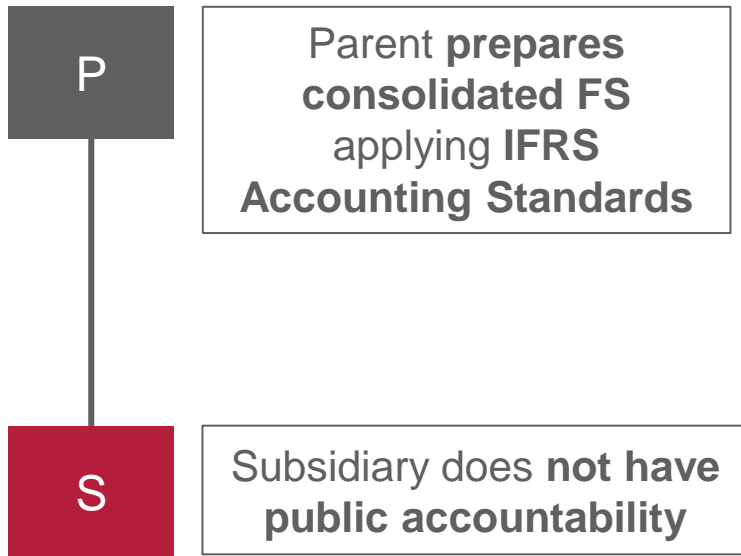
Equity or debt instruments traded in public market



Hold assets entrusted to them by their customers

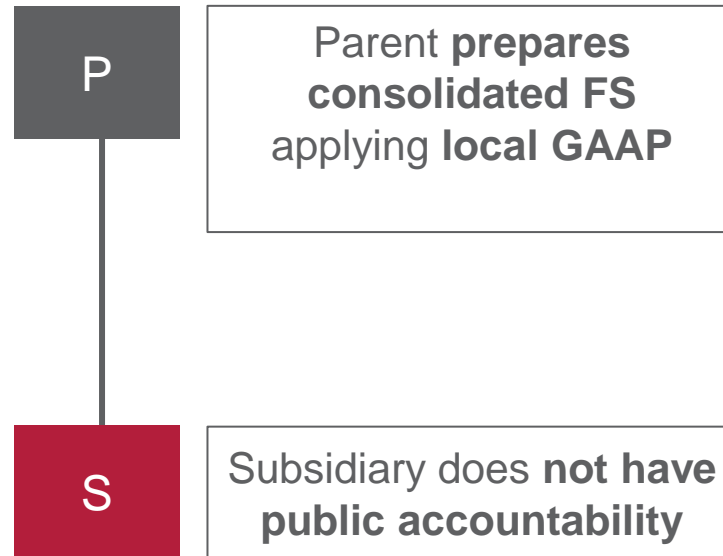
# Illustration: eligible subsidiaries

## Scenario 1



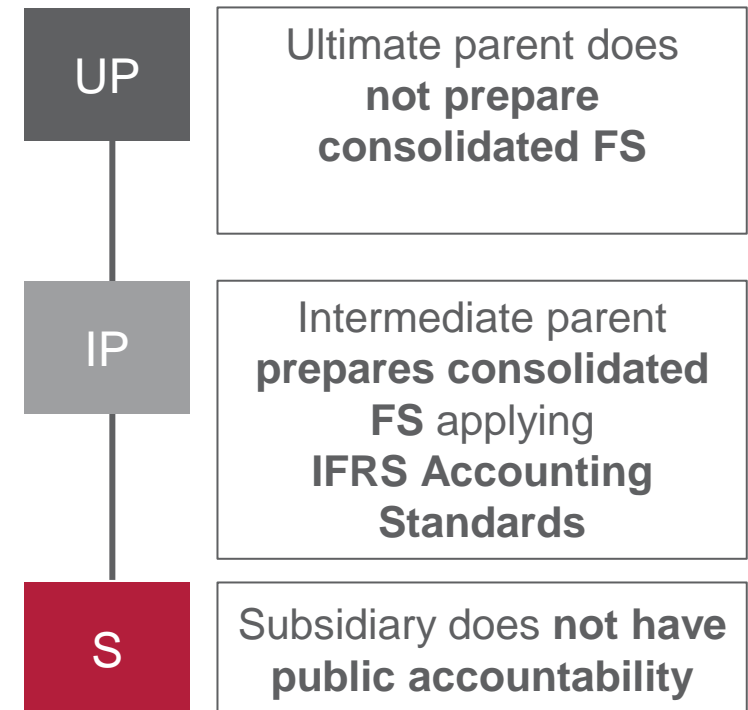
Eligible? 

## Scenario 2



Eligible? 

## Scenario 3



Eligible? 

## How the IASB develops reduced disclosure requirements



Disclosure requirements in  
IFRS Accounting Standards

The IASB applies the  
*principles for reducing  
disclosure requirements*<sup>1</sup>  
(see slide 13)



Disclosure requirements in  
*Subsidiaries without Public  
Accountability: Disclosures*

<sup>1</sup> IASB used the *IFRS for SMEs* Accounting Standard, which also used these principles, as a starting point in developing reduced disclosure requirements.

## The Principles for reducing disclosure requirements

<b>Liquidity and solvency</b>	Entity's ability to generate cash flows and continue as a going concern
<b>Short-term cash flows, obligations, commitments and contingencies</b>	Entity's ability to meet its obligations
<b>Measurement uncertainty</b>	Significant judgements and estimates used by management
<b>Disaggregation of amounts</b>	Separation of amounts presented in the financial statements
<b>Accounting policy choices</b>	Accounting policies applied by the entity

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## Which IFRS Accounting Standards?

The Subsidiaries Standard sets out reduced disclosure requirements for all IFRS Accounting Standards except for:

- *IFRS 8 Operating Segments*
- *IAS 33 Earnings per Share*

Standards apply to entities whose equity or debt instruments are traded in public market

- *IFRS 17 Insurance Contracts*

IASB will consider reducing disclosure after a period of implementation

## How to apply the Subsidiaries Standard—Illustration

### Inventories

Recognition, measurement and  
presentation requirements



Apply **IAS 2 *Inventories***.

Disclosure requirements



Apply the Subsidiaries Standard,  
subheading **IAS 2 *Inventories***.

# Comparative information

## Applied the Subsidiaries Standard in current period but not preceding period



Applied IFRS Accounting Standards but *not* the Subsidiaries Standard

Applies the Subsidiaries Standard

Less disclosures in the current period

In 20X2 financial statements, provide 20X1 comparative information *only* for information reported in 20X2

## Applied the Subsidiaries Standard in preceding period but not current period



Applied the Subsidiaries Standard

Applies IFRS Accounting Standards but *not* the Subsidiaries Standard

More disclosures in the current period

In 20X2 financial statements, provide 20X1 comparative information for information reported in 20X2

Unless another IFRS Accounting Standard requires or permits otherwise



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## Frequently Asked Questions

### Compliance statement

An eligible subsidiary applying the Subsidiaries Standard asserts compliance with IFRS Accounting Standards, including the Standard.

### Fair presentation

Additional disclosures need to be provided when compliance with the specific requirements in the Subsidiaries Standard are insufficient to enable users to understand financial position and financial performance of the entity.

### Interaction with IFRS 1

First-time application of the Subsidiaries Standard does not, in itself, result in an entity meeting the definition of a first-time adopter.

### Financial statements

An eligible subsidiary is permitted to apply the Subsidiaries Standard in its consolidated, separate or individual financial statements.

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# How the Subsidiaries Standard will be kept up-to-date

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## How the Subsidiaries Standard will be kept up-to-date

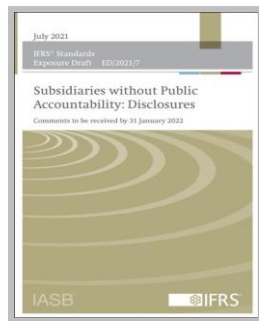
**The Subsidiaries Standard will be updated as new and amended IFRS Accounting Standards are developed**

**Exposure draft of a new or amended IFRS Accounting Standard**

Apply **the Principles** for reducing the disclosure requirements and assess cost–benefit for eligible subsidiaries

Obtain feedback and issue a new or amended IFRS Accounting Standard, and consequential amendments to the Subsidiaries Standard

# ‘Catch-up’ Exposure Draft



February  
2021

Disclosure requirements amended or proposed after February 2021

- *Non-current Liabilities with Covenants*
- *Supplier Finance Arrangements*
- *Lack of Exchangeability*
- *Primary Financial Statements*
- *Rate Regulated Activities*
- *International Tax Reform—Pillar Two Model Rules*



2024

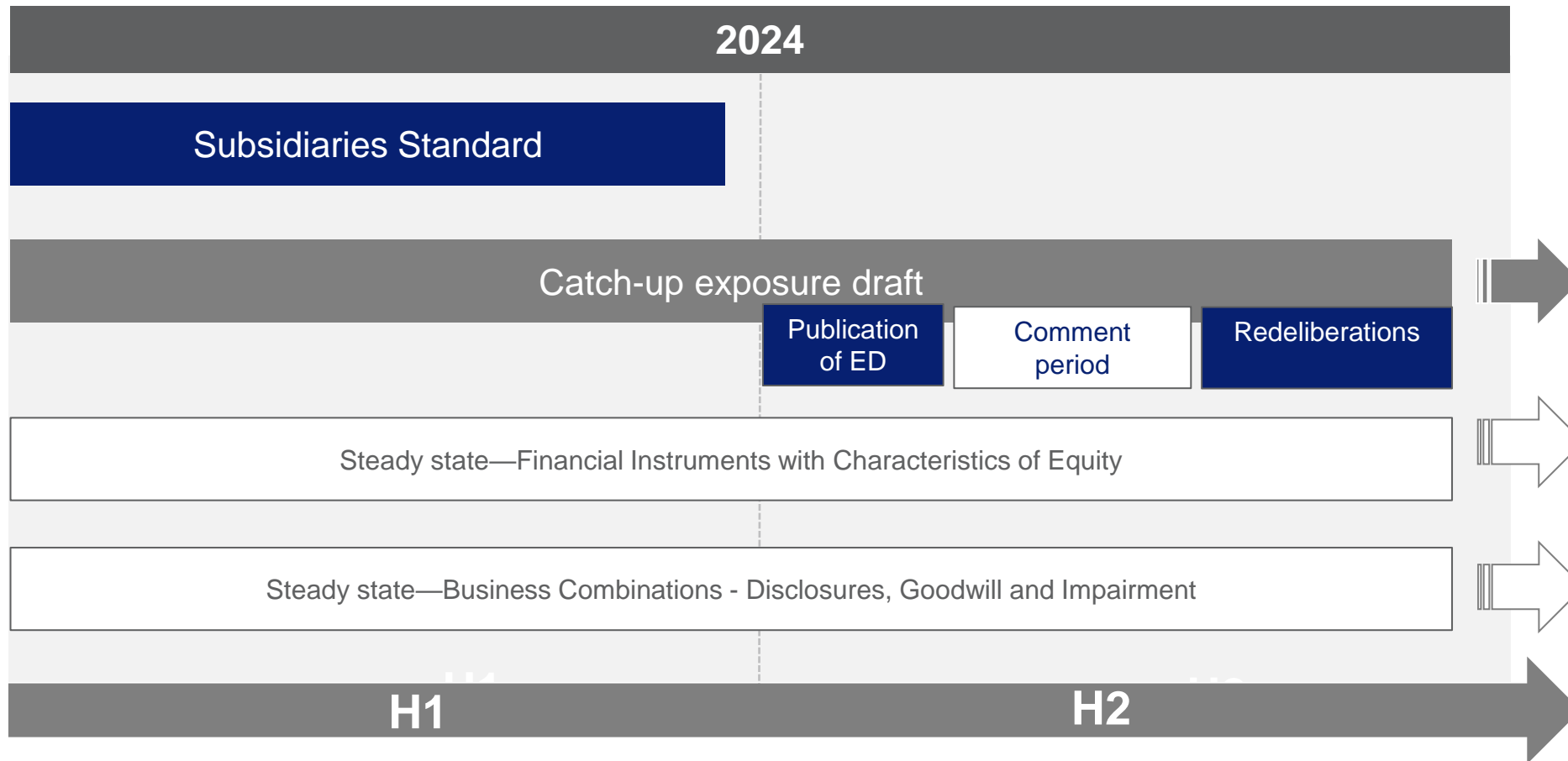
‘Catch-up’  
Exposure Draft

2024

IFRS Accounting Standards up to February 2021 included the draft Standard

These disclosure requirements remain applicable until the Subsidiaries Standard is amended

# IASB workstreams related to the Subsidiaries Standard<sup>1</sup>

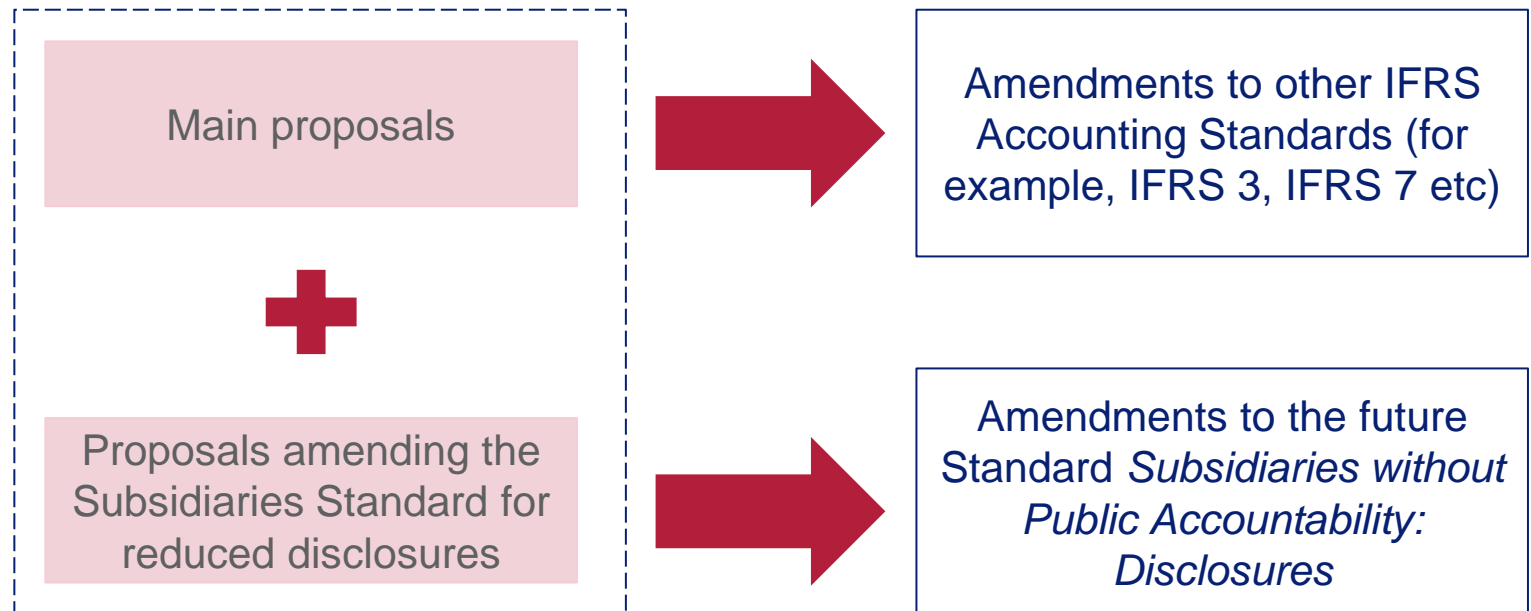


<sup>1</sup> As at February 2024

## Steady state

### Exposure drafts:

- **Financial Instruments with Characteristics of Equity**
  - &
  - **Business Combinations - Disclosures, Goodwill and Impairment**
- propose amendments to the Subsidiaries Standard**



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# Expected effects of the Subsidiaries Standard

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## Benefits of the Subsidiaries Standard



**Simplification of the reporting process that will reduce costs**



**Improved knowledge and application of IFRS Accounting Standards**



**Subsidiary's financial statements focused on their users**



**Systemic long-term benefits in the reporting ecosystem**



# Benefits to companies

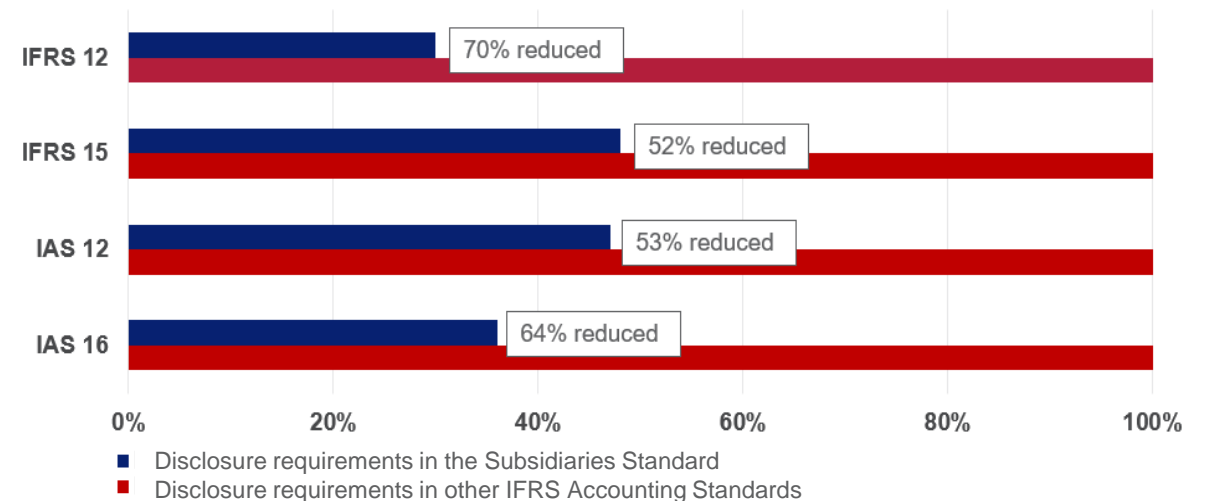
Resolving complications of dual reporting by:

- enabling subsidiaries to use group’s accounting policies
- eliminating the need to keep dual accounting records

Percentage reduction in disclosure requirements

## Removing disproportionate disclosure requirements

- Applying the Subsidiaries Standard will eliminate the need for disclosures that are disproportionate to the information needs of users of their financial statements.



## Benefits to users of subsidiaries' financial statements

### Assessing users' needs

- balance calls from preparers for a reduction in disclosure requirements



- with the information needs of users of financial statements of subsidiaries without public accountability.



*'Disclosure principles used [in the IFRS for SMEs Accounting Standard] are right for credit analysis and should be maintained.'*



*'Cash-flow is always the key factor to analyse the 'health' of a company. We are interested to know the sources of funds i.e. from shareholders, business activities, banking facilities; in order to make sound investment decisions.'*



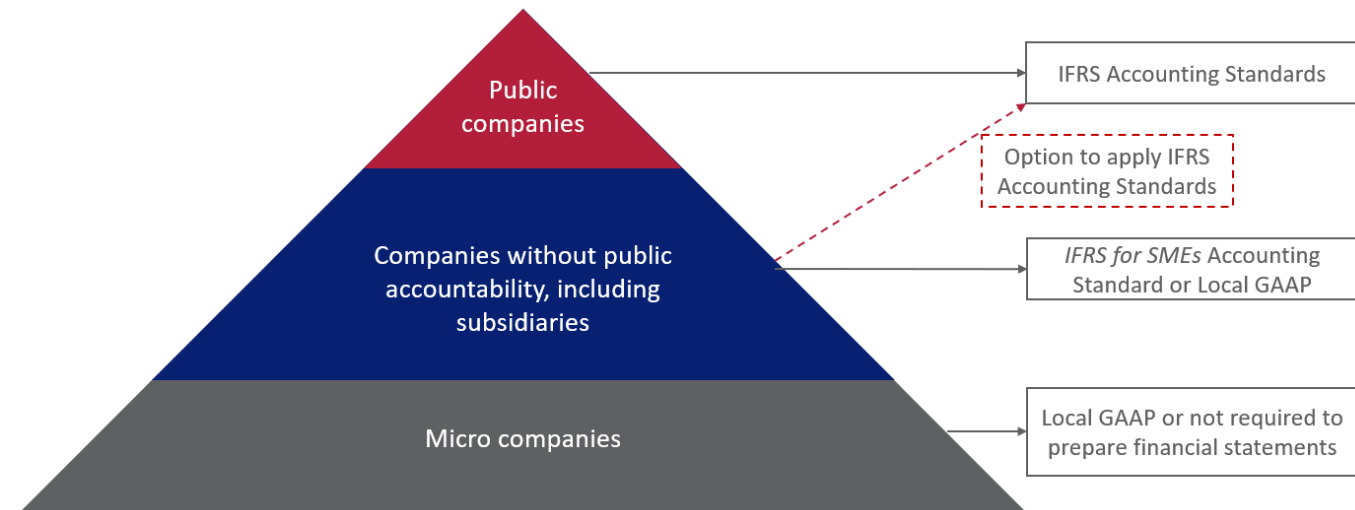
*'...information about liquidity and solvency are crucial for the survival of SMEs [small and medium entities].'*

## Benefits for jurisdictions

### Making global accounting standards more accessible

- there is a cost from having different financial reporting frameworks in jurisdictions.
- the Subsidiaries Standard will reduce these, permitting a global financial reporting language to be applied throughout the group.

### Financial reporting frameworks



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# Interaction with the future Primary Financial Statements (PFS) Standard

## Interaction between PFS Standard and Subsidiaries Standard



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## Resources



[Webcast series: Forthcoming IFRS Accounting Standard for \*Subsidiaries without Public Accountability\*](#)



[WSS Conference 2023 - Overview of \*Subsidiaries without Public Accountability\* and Panel Discussion with Standard-Setters](#)

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Thank you!

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