IFRS® Accounting

Staff paper

Agenda reference 2

IFRS Taxonomy Consultative Group (ITCG) meeting

Date	**12-13 October 2023**
Project	**IFRS Accounting Taxonomy —Subsidiaries without Public Accountability: Disclosures**
Topic	**High-level considerations**
Contacts	**Izabela Ruta** (iruta@ifrs.org) **Manjil Pradhan** (manjil.pradhan@ifrs.org)

This paper has been prepared for discussion at a public meeting of the ITCG. 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® Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB *Update*.

Purpose of this session

The staff would like to obtain advice on the possible approaches to reflect in the Taxonomy the disclosure requirements in the forthcoming Standard for Subsidiaries without Public Accountability.

Background

The International Accounting Standards Board (IASB) has completed redeliberations of the proposals in the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* published in July 2021. The IASB expects to publish the new IFRS Accounting Standard in H1 2024 after completing the balloting process.

The proposals of the new IFRS Accounting Standard respond to feedback from stakeholders that they would like to simplify the preparation of subsidiaries' financial statements, by permitting subsidiaries to apply IFRS Accounting Standards with reduced disclosure requirements.

The ITCG had an initial discussion on the possible approaches at their July 2022 meeting. The staff analysis at this meeting is building on the feedback received and considers updates on the project.

Agenda

Background on the project

Subsidiaries without Public Accountability: Disclosures

Background

Scope of the 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.

See Appendix for more details on the eligible entities

What the Standard covers

See Appendix for more details on why IASB is developing the Standard

Disclosure requirements in IFRS Accounting Standards

The IASB applies the ***principles for reducing disclosure requirements***

Disclosure requirements in *Subsidiaries without Public Accountability: Disclosures*

IFRS Accounting

Background

The Standard includes the disclosure requirements from full IFRS Accounting Standards that companies within the scope of the Standard are required to provide, organised by IFRS Accounting Standards

[DRAFT] INTERNATIONAL FINANCIAL REPORTING STANDARD X *SUBSIDIARIES WITHOUT PUBLIC ACCOUNTABILITY: DISCLOSURES*

An example of application of the Standard

Inventories

Recognition, measurement and presentation requirements

Go to **IAS 2 *Inventories*** for recognition, measurement and presentation requirements

Disclosure requirements

Go to the sub-heading **IAS 2 *Inventories*** in the future Standard for disclosure requirements

- See Appendix for Standards for which disclosures are not reduced in this Standard and approach to maintenance of the Standard
- See slide 11 for detailed example of disclosures from IAS 2

Impact on the IFRS Accounting Taxonomy

Recap of previous ITCG discussions

IFRS Accounting

Elements for subsidiaries without public accountability

Proposed Approach in July 2022	Separate presentation (ELR)* within entry point for "full" IFRS** (consistent with other IFRS Accounting Standards for "full" IFRS)

Concerns raised

- Risk that companies outside of the scope of the new Standard may choose elements from the new Standard for tagging, assuming new elements would need to be created for some requirements in the Standard (see next slide for suggestions to avoid the risk)
- New elements are likely to be sparsely used because companies within the scope of the new Standard are unlikely to be required to tag their reports
- Double effort may be required for reflecting changes in the new Standard resulting from changes in full IFRS Standards – which is a concern mostly for the new entry point but may also be applicable to the new ELR

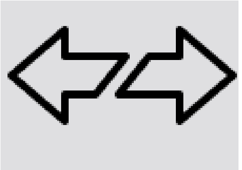
* IFRS Accounting Taxonomy is organised by presentation groups (ELR) largely based on the IFRS Accounting Standards.
** Entry point allow accessing some parts of the Taxonomy only, for example only elements reflecting IFRS for SMEs.

Mitigating the use of incorrect elements

As suggested by ITCG members:

Include **guidance labels** for elements that are only appropriate for companies within the scope of the new Standard

Develop **automatic checks** to identify if incorrect elements were used by companies outside of the scope of the new Standard



Include new elements for subsidiaries without public accountability in a **separate entry point**

Staff analysis

IFRS Accounting

Example - requirements in IAS 2

Disclosure

36 The financial statements shall disclose:

(a) the accounting policies adopted in measuring inventories, including the cost formula used;

(b) the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;

(c) the carrying amount of inventories carried at fair value less costs to sell;

(d) the amount of inventories recognised as an expense

(e) the amount of any write-down of inventories recogni

(f) the amount of any reversal of any write-down that is
expense in the period in accordance with paragraph

(g) the circumstances or events that led to the reversal

(h) the carrying amount of inventories pledged as secur

Requirements not copied in new Standard

IAS 2 *Inventories*

New Standard

See next slide for Taxonomy reflection

IAS 2 *Inventories*

128 An entity shall disclose:

(a) the accounting policies adopted in measuring inventories, including the cost formula used;

(b) the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;

(c) the amount of inventories recognised as an expense during the period;

(d) the amount of any write-down of inventories recognised as an expense in the period in accordance with paragraph 34 of IAS 2;

(e) the amount of any reversal of any write-down that is recognised as a reduction in the amount of inventories recognised as expense in the period in accordance with paragraph 34 of IAS 2; and

(f) the total carrying amount of inventories pledged as security for liabilities.

IFRS Accounting

Reflection of IAS 2 requirements in Taxonomy

IFRS Accounting Taxonomy – reflection of IAS 2

Disclosure of inventories [text block]	Text block	IAS 2 - Disclosure Disclosure
Description of accounting policy for measuring inventories [text block]	Text block	IAS 2.36 a Disclosure
Description of inventory cost formulas	Text	IAS 2.36 a Disclosure
Inventories, at fair value less costs to sell	Monetary instant, debit	IAS 2.36 c Disclosure
Inventories, at net realisable value	Monetary instant, debit	IAS 2.36 Common practice
Inventory write-down	Monetary duration	IAS 1.98 a Disclosure, IAS 2.36 e Disclosure
Reversal of inventory write-down	Monetary duration	IAS 1.98 a Disclosure, IAS 2.36 f Disclosure
Description of circumstances leading to reversals of inventory write-down	Text	IAS 2.36 g Disclosure
Cost of inventories recognised as expense during period	Monetary duration, debit	IAS 2.36 d Disclosure
Inventories pledged as security for liabilities	Monetary instant, debit	IAS 2.36 h Disclosure

Expected impact on the Taxonomy of new Standard

Elements reflecting:	Impact on the Taxonomy
Requirements copied in new Standard	**Add references to existing elements to** reflect that: • the same accounting concept is reused in another Standard; and • the same element can be used for tagging related disclosures
Requirements NOT copied in new Standard	N/A
Common reporting practice	N/A

1. Estimated impact: ~25% of the Taxonomy (~1.5 k elements)

2. Very few, if any, elements specific to this Standard are expected

Additional options related to accessibility of elements

Key factors:

1. Estimated impact ~ 25% of the Taxonomy (~1.5 k elements)

2. Limited usage of Taxonomy for companies within the scope

3. Very few, if any, elements specific to this Standard are expected

Option 1: add references and **create new ELR compiling only new elements, if any**

- reflects the Standard, simple approach that does not excessively increase Taxonomy presentation.

Option 2: add references and **create new ELR compiling all elements (approach staff recommended in previous meeting)**

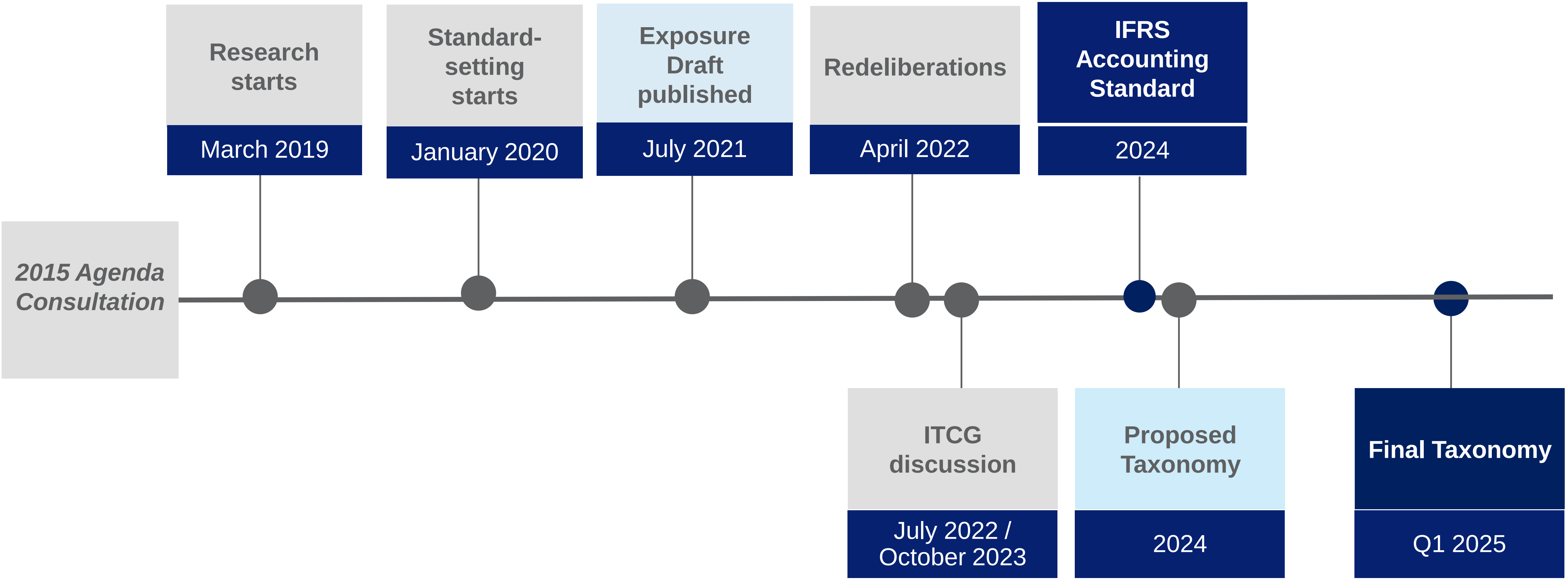
- Consistent with approaches to other Standards
- **Accessing elements:** Separate ELR allows entities within the scope to access the relevant elements in a single place AND easily access all other elements to tag other disclosures that companies may disclose (including common practice elements).

Option 3: add references and **create new entry point (to not include new elements in “main” entry point)**

- **Accessing elements:** Separate entry point limits the ease of access to other elements within full IFRS.
- **Limited risk of confusion:** Since there are not many (if any) new elements, there is little risk that companies outside the scope will use the additional elements inappropriately hence less need to create separate entry point.

On balance we initially recommend option 1, considering the limited usage and increase of the overall Taxonomy complexity.
This is different to approach used for other Standards, but we plan to monitor the usage and can change to option 2 if usage increases.

Subsidiaries without public accountability: Timeline



Questions for ITCG

IFRS Accounting

Questions to ITCG members

Question 1	Do you agree with the approach proposed on slides 13-14 (identification of affected elements by references and separate ELR only for new elements, if any)?
Question 2	Do you have any other comments or concerns related to digital reporting by companies within the scope of the project?

Appendix: More detailed background information on the project

Appendix

More detailed background information on the project

1A. Why the IASB developed *Subsidiaries without Public Accountability: Disclosures*

1B. Overview of the future Standard

1C. Maintaining the Standard

Why the IASB developed *Subsidiaries without Public Accountability: Disclosures*

Why the IASB undertook the project—the problem

Parent

Subsidiary

Parent prepares consolidated financial statements
applying IFRS Accounting Standards

Subsidiary submits **consolidation pack**
applying IFRS Accounting Standards

Subsidiary's Financial Statements

Apply **IFRS Accounting Standards**?	Apply **local GAAP** or the ***IFRS for SMEs*** Accounting Standard?
BUT disclosures may be disproportionate for these subsidiaries	BUT requires additional accounting records

Finding a solution

Parent

Subsidiary

Parent prepares consolidated financial statements
applying IFRS Accounting Standards

Subsidiary submits **consolidation pack**
applying IFRS Accounting Standards

Subsidiary's Financial Statements

Apply **IFRS Accounting Standards with reduced disclosure requirements**
(IFRS Accounting Standard *Subsidiaries without Public Accountability: Disclosures*)

Overview of the future Standard

Who can apply the future 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.

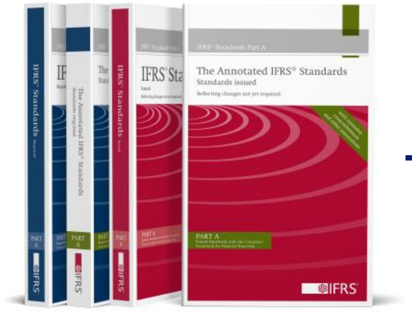
What is public accountability

Equity or debt instruments traded in public market

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

Hold assets entrusted to them by their customers

How did the IASB develop reduced disclosure requirements?



The IASB applies the ***principles for reducing disclosure requirements***

Disclosure requirements in IFRS Accounting Standards

Disclosure requirements in *Subsidiaries without Public Accountability: Disclosures*

Jump-start approach

The IASB used the *IFRS for SMEs* Accounting Standard as a starting point in developing reduced disclosure requirements.

Which IFRS Accounting Standards?

The future 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 disclosures after a period of implementation

Maintaining the Standard

How the Standard will be kept up-to-date

The Standard will be updated as new and amended IFRS Accounting Standards are issued

Exposure draft of a new or amended IFRS Accounting Standard

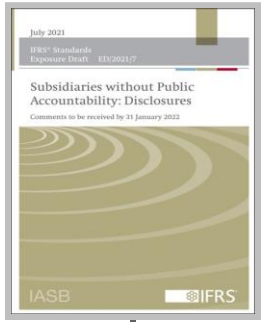
↓

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

↓

Obtain feedback and issue the new or amended IFRS Accounting Standard, accompanied by the amendments to this Standard

‘Catch-up’ Exposure Draft



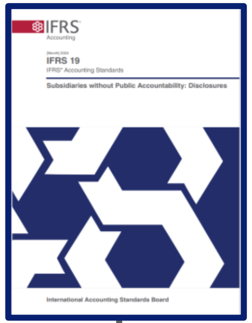
February 2021

IFRS Accounting Standards up to February 2021 were covered in the draft Standard

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*

These disclosure requirements remain applicable until the Standard is amended by the ‘catch-up’ Exposure Draft



2024

‘Catch-up’ Exposure Draft

2024

IFRS Accounting

Follow us online

ifrs.org

@IFRSFoundation

IFRS Foundation

International Accounting Standards Board

The views expressed In this presentation are those of the presenter, not necessarily those of the IFRS Foundation, International Accounting Standards Board or the International Sustainability Standards Board.

Copyright © 2023 IFRS Foundation. All rights reserved.