IFRS Accounting

Staff paper

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IASB® meeting

Date	**December 2023**
Project	**Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures**
Topic	**Sweep issues—approach to updating the Exposure Draft for the disclosure requirements in the PFS Standard**
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Purpose of this paper

1. The purpose of this paper is to ask for the International Accounting Standards Board (IASB) agreement on how the proposed disclosure requirements set out in the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* (Exposure Draft) will be updated for the future IFRS Accounting Standard *Presentation and Disclosure in Financial Statements* (the PFS Standard).

2. The PFS Standard is expected to be issued before the IFRS Accounting Standard *Subsidiaries without Public Accountability: Disclosures* (the Subsidiaries Standard). Consequently, the proposals in the Exposure Draft should be updated to include the disclosure requirements in the PFS Standard.

Summary of staff recommendation

3. The staff recommends that the IASB:

   (a) update the Exposure Draft for disclosure requirements in the PFS Standard using the approach described in paragraphs 9–14; and

   (b) in applying this approach to the prospective PFS Standard (as set out in Appendix A to this paper):

      (i) exclude from the Subsidiaries Standard guidance on applying disclosure requirements in paragraphs 78, 98, 114 and 117 of IAS 1 *Presentation of Financial Statements* that will be retained in the PFS Standard;

      (ii) exclude from the Subsidiaries Standard paragraph 106(d) of IAS 1 that will become a presentation requirement in the PFS Standard; and

      (iii) include the relief in paragraph 128 of IAS 1 that will be retained in the PFS Standard.

Structure of this paper

4. The paper is structured as follows:

   (a) background (paragraphs 5–6);

   (b) staff analysis (paragraphs 7–15);

   (c) staff recommendation (paragraph 16); and

   (d) Appendix A—areas of judgement in applying the approach to updating the Exposure Draft.

Background

5. The proposed disclosure requirements in the Exposure Draft were developed considering all IFRS Accounting Standards issued as at 28 February 2021 and exposure drafts published as at 1 January 2021 except for the Exposure Draft *General Presentation and Disclosures*.[1]

6. Therefore, the proposed disclosure requirements in the Exposure Draft were based on IAS 1 (see paragraphs 110–127 of the Exposure Draft). The PFS Standard will replace IAS 1 and make consequential amendments to other IFRS Accounting Standards.

Staff analysis

7. To determine how to update the proposed disclosure requirements in the Exposure Draft for the PFS Standard, the staff have analysed the pre-ballot draft of the PFS Standard. Based on this analysis, the disclosure requirements in the PFS Standard were categorised as follows:

   (a) disclosure requirements in IAS 1 that are 'retained' in the PFS Standard. These disclosure requirements can be further categorised as:

      (i) changes to the nature of a requirement (for example, changing a presentation requirement to a disclosure requirement or vice-versa) or changes to the information that could be disclosed to comply with the requirement;

      (ii) editorial changes to the text previously in IAS 1 to conform with the current style like updating 'eg' to 'for example'); or

      (iii) unchanged disclosure requirements.

[1] The IASB will publish an exposure draft of proposed amendments to the Subsidiaries Standard for new or amended disclosure requirements added or amended in other IFRS Accounting Standards after 28 February 2021. This 'catch-up' exposure draft will include newly added or amended disclosure requirements in the PFS Standard.

(b) disclosure requirements relocated from IAS 1 to IFRS 7 *Financial Instruments: Disclosures* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Disclosure requirements that were relocated to other IFRS Accounting Standards have undergone editorial changes.

(c) new disclosure requirements in the PFS Standard (for example, the disclosure requirements related to management-defined performance measures).

Approach to updating the Exposure Draft for the disclosure requirements in the PFS Standard

8. Agenda Paper 31A *Effective date and transition* of the July 2023 IASB meeting set out an overview of how the proposed disclosure requirements in the Exposure Draft will be updated for the PFS Standard. Paragraphs 9–14 of this paper discuss how the staff has implemented this approach.

General approach

9. As a general approach, the disclosure requirements proposed in the Exposure Draft should be updated for the PFS Standard such that:[2]

(a) disclosure requirements from IAS 1 that were proposed in the Exposure Draft should be in the Subsidiaries Standard under the subheading of the PFS Standard. For example, disclosures required by paragraph 42 of IAS 1 when it is impracticable to reclassify comparative amounts were proposed in paragraph 116 of the Exposure Draft and, therefore, will also be in the Subsidiaries Standard.

(b) disclosure requirements in IAS 1 that are *not* proposed in the Exposure Draft should not be in the Subsidiaries Standard because the disclosure requirements were assessed as not meeting the principles for reducing disclosure

[2] Subject to the changes as a result of the IASB's redeliberations in April 2023 and May 2023 on feedback to the proposed disclosure requirements in the Exposure Draft.

requirements[3]. For example, disclosures required by paragraph 90 of IAS 1 on the amount of income tax relating to each item of other comprehensive income were not proposed in the Exposure Draft and should, therefore, not be in the Subsidiaries Standard.

10. Disclosure requirements in the PFS Standard that will be included in the Subsidiaries Standard are either added as a:

    (a) disclosure requirement set out under the subheading PFS Standard. This is for disclosure requirements that specify *what* information to disclose.

    (b) requirement that remains applicable *in situ*.[4] This is for requirements that result in a disclosure *when* particular conditions are met. For example, the PFS Standard proposes to retain the requirement in paragraph 35 of IAS 1 that an entity present on a net basis gains and losses arising from a group of similar transactions. However, those gains and losses have to be disclosed separately if doing so provides material information.

Disclosure requirements in IAS 1 that will be retained in the PFS Standard

11. The disclosure requirements in IAS 1 that are 'retained' in the PFS Standard have been addressed based on the categories in paragraph 7 of this paper. Disclosure requirements that have:

    (a) changes described in paragraph 7(a)(i) of this paper have been considered new disclosure requirements and included in the Subsidiaries Standard. Except for disclosure requirements that have been amended and are now presentation requirements, these have been excluded from the Subsidiaries Standard.

    (b) editorial changes or unchanged (see paragraph 7(a)(ii) and (iii) of this paper), the general approach in paragraph 9 of this paper has been followed.

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[3] The IASB are guided by these broad principles in assessing what information users of financial statements of entities without public accountability identify as important (see paragraph BC34 of the Basis for Conclusions on the Exposure Draft).

[4] See paragraphs 23–32 of Agenda Paper 31D *Structure of the Draft Standard* of the October 2022 IASB meeting.

Disclosure requirements in IAS 1 that will be relocated to another IFRS Accounting Standard

12. For disclosure requirements that are relocated to another IFRS Accounting Standard (see paragraph 7(b)) the staff have followed the general approach in paragraph 9 of this paper. For example, the disclosure requirement in paragraph 117 of IAS 1 on disclosure of accounting policy information will be relocated to IAS 8. The disclosure requirement was proposed in paragraph 123 of the Exposure Draft. Therefore, the disclosure requirement will be relocated in the Subsidiaries Standard from subheading IAS 1 to subheading IAS 8.

13. Similarly, disclosure requirements in IAS 1 that will be relocated but were not proposed in the Exposure Draft should not be in the Subsidiaries Standard.

New disclosure requirements

14. New disclosure requirements (see paragraphs 7(c) and 11(a)) will be included in the Subsidiaries Standard because the IASB has not considered whether to reduce these disclosure requirements. For example, disclosures required for management-defined performance measures. This is consistent with the IASB's tentative decision to require eligible subsidiaries to comply with disclosure requirements in amendments to other IFRS Accounting Standards that have been issued after the publication of the Exposure Draft.[5]

Results of applying the approach

15. In many instances, applying the approach described in paragraphs 9–14 is straightforward. However, in some instances, judgement is needed. These areas where judgement is needed, together with the staff' analysis and conclusion, are in Appendix A to this paper.

[5] See IASB *Update* of the May 2023 IASB meeting.

Staff recommendation

16. The staff recommends that the IASB:

    (a) update the Exposure Draft for disclosure requirements in the PFS Standard using the approach described in paragraphs 9–14; and

    (b) in applying this approach to the prospective PFS Standard (as set out in Appendix A to this paper):

        (i) exclude from the Subsidiaries Standard guidance on applying disclosure requirements in paragraphs 78, 98, 114 and 117 of IAS 1 that will be retained in the PFS Standard;

        (ii) exclude from the Subsidiaries Standard paragraph 106(d) of IAS 1 that will become a presentation requirement in the PFS Standard; and

        (iii) include the relief in paragraph 128 of IAS 1 that will be retained in the PFS Standard.

Question for the IASB
Does the IASB agree with the staff recommendation set out in paragraph 16?

Appendix A—areas of judgement in applying the approach to updating the Exposure Draft

Requirements in IAS 1		PFS Standard	Proposals in the Subsidiaries ED	Staff analysis and conclusion
78	The detail provided in subclassifications depends on the requirements of IFRSs and on the size, nature and function of the amounts involved. An entity also uses the factors set out in paragraph 58 to decide the basis of subclassification. The disclosures vary for each item, for example: (a) items of property, plant and equipment are disaggregated into classes in accordance with IAS 16; (b) receivables are disaggregated into amounts receivable from trade customers, receivables from related parties, prepayments and other amounts; (c) inventories are disaggregated, in accordance with IAS 2 Inventories, into classifications such as merchandise, production supplies, materials, work in progress and finished goods; (d) provisions are disaggregated into provisions for employee benefits and other items; and	The PFS Standard will provide guidance on assets, liabilities and items of equity that might have sufficiently dissimilar characteristics to require presentation in the statement of financial position to provide a useful structured summary or disclosure in the notes to provide material information.	The subparagraphs in paragraph 78 of IAS 1 are subparagraphs of paragraph 117	*Analysis* The staff have identified this as change in the information that could be disclosed to comply with the requirement, see paragraph 7(a)(i) of this paper. Furthermore, the requirements in IAS 1 and the PFS Standard are guidance on how to apply the requirements. *Conclusion* The staff recommend not including the guidance consistent with the IASB's tentative decision to exclude from the Subsidiaries Standard guidance on how to apply disclosure requirements.

	(e) equity capital and reserves are disaggregated into various classes, such as paid-in capital, share premium and reserves.			
98	Circumstances that would give rise to the separate disclosure of items of income and expense include: (a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs; (b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring; (c) disposals of items of property, plant and equipment; (d) disposals of investments; (e) discontinued operations; (f) litigation settlements; and (g) other reversals of provisions	The PFS Standard will provide guidance on items of income and expenses that might have sufficiently dissimilar characteristics to require presentation in the statement of profit or loss to provide a useful structured summary or disclosure in the notes to provide material information.	Not proposed	*Analysis* The staff have identified this as change in the information that could be disclosed to comply with the requirement, see paragraph 7(a)(i) of this paper. Furthermore, the requirements in IAS 1 and the PFS Standard are guidance on how to apply the requirements. *Conclusion* The staff recommend not including the guidance consistent with the IASB's tentative decision to exclude from the Subsidiaries Standard guidance on how to apply disclosure requirements.
106(d)	An entity shall present a statement of changes in equity as required by paragraph 10. The statement of changes in equity includes the following information: … (d) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period,	The PFS Standard will retain, with some revisions, the requirement in paragraph 106(d) of IAS 1 that requires, for each component of equity, a reconciliation of carrying amounts	Applicable *in situ*	*Analysis* The staff have identified this as a change from a disclosure requirement to presentation requirement, see paragraph 7(a)(i) of this paper. The Subsidiaries Standard only includes disclosure requirements; recognition, measurement and *presentation* requirements in other IFRS Accounting Standards continue to

	separately (as a minimum) disclosing changes resulting from: (i) profit or loss; (ii) other comprehensive income; and (iii) transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.	between the beginning and end of the period.		apply and will not be reproduced in the Subsidiaries Standard. *Conclusion* The staff recommend excluding this requirement from the Subsidiaries Standard.
114	Examples of systematic ordering or grouping of the notes include: (a) giving prominence to the areas of its activities that the entity considers to be most relevant to an understanding of its financial performance and financial position, such as grouping together information about particular business activities; (b) grouping together information about items measured similarly such as assets measured at fair value; or (c) following the order of the line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position, such as: (i) statement of compliance with IFRSs (see paragraph 16); (ii) significant accounting policies applied (see paragraph 117);	The PFS Standard will retain unchanged as application guidance paragraph 114 of IAS 1, that provide examples of systematic ordering or grouping of the notes. This application guidance will be linked to the requirement on presenting notes to financial statements in a systematic manner in the PFS Standard.	Applicable *in situ*	*Analysis* The staff have identified that the paragraph provides guidance on how to apply the requirements (in this case, on the systematic ordering or grouping in the notes). *Conclusion* The staff recommend not including the guidance consistent with the IASB's tentative decision to exclude in Subsidiaries Standard guidance on how to apply disclosure requirements. The related requirement in IAS 1 that would otherwise be specified in the Subsidiaries Standard (see IASB *Update* of the July 2023 IASB meeting) should also be excluded.

	(iii) supporting information for items presented in the statements of financial position and in the statement(s) of profit or loss and other comprehensive income, and in the statements of changes in equity and of cash flows, in the order in which each statement and each line item is presented; and (iv) other disclosures, including: (1) contingent liabilities (see IAS 37) and unrecognised contractual commitments; and (2) non-financial disclosures, eg the entity's financial risk management objectives and policies (see IFRS 7).			
117	An entity shall disclose material accounting policy information (see paragraph 7). Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.	The PFS Standard will relocate paragraph 117 of IAS 1 to IAS 8 unchanged. This requires disclosure of material accounting policy information.	Proposed. See paragraph 123 of the Exposure Draft.	*Analysis* The staff have identified that the disclosure requirement is only in the first sentence. The rest of the paragraph provides guidance on when an accounting policy information is material. *Conclusion* The staff recommend only including in the Subsidiaries Standard the first sentence because the rest of the paragraph is guidance on applying the disclosure requirement. This is consistent with the IASB's tentative decision to exclude from the Subsidiaries Standard guidance on how to apply disclosure requirements. The related requirement in IAS 1

				that would otherwise be specified in the Subsidiaries Standard (see IASB *Update* of the July 2023 IASB meeting) should also be updated, accordingly.
128	The disclosures in paragraph 125 are not required for assets and liabilities with a significant risk that their carrying amounts might change materially within the next financial year if, at the end of the reporting period, they are measured at fair value based on a quoted price in an active market for an identical asset or liability. Such fair values might change materially within the next financial year but these changes would not arise from assumptions or other sources of estimation uncertainty at the end of the reporting period.	The PFS Standard will relocate paragraph 128 of IAS 1 to IAS 8 unchanged. This provides relief to entities on disclosure about assumptions and other sources of estimation uncertainty.	Not proposed	*Analysis* The staff have identified that relief from disclosure requirements should also be available to subsidiaries electing to apply the Subsidiaries Standard. This is to ensure that applying the Subsidiaries Standard is not onerous compared to applying the disclosure requirements in other IFRS Accounting Standards. *Conclusion* The staff recommend including in the Subsidiaries Standard as a disclosure requirement under the subheading IAS 8.