**Emerging Economies Group meeting**

**Date**  
October 2023

**Project**  
Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures

**Topic**  
Overview of the forthcoming IFRS Accounting Standard

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This paper has been prepared for discussion at a public meeting of the Emerging Economies Group (EEG). 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

To introduce the forthcoming IFRS Accounting Standard *Subsidiaries without Public Accountability* (new Standard).

Questions for EEG members

- Do you have any questions on applying the new Standard?
- What implementation support do you expect will be needed in your jurisdiction on new Standard?
# Structure

1. Why the IASB developed *Subsidiaries without Public Accountability: Disclosures*
2. Overview of the new Standard
3. Maintaining the new Standard
4. Changes from the Exposure Draft
5. Effects of the new Standard
6. Questions
Subsidiaries without Public Accountability: Project Timeline

- **Research starts** March 2019
- **Standard-setting starts** January 2020
- **Exposure Draft published** July 2021
- **Redeliberations** April 2022–July 2023
- **IFRS Accounting Standard** H1 2024

2015 Agenda Consultation
Key facts about the future Standard

Optional IFRS Accounting Standard

Simplified preparation of financial statements for eligible subsidiaries while maintaining the usefulness for their users

Reduced disclosure requirements
Why the IASB developed Subsidiaries without Public Accountability: Disclosures
Why the IASB undertook the project—the problem

- 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?
    - BUT disclosures may be disproportionate for these subsidiaries
  - Apply local GAAP or the IFRS for SMEs Accounting Standard?
    - BUT requires additional accounting records
Finding a solution

Parent

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 new Standard
Who can apply the future Standard?

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.

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**Eligible subsidiaries**

**What is public accountability**

- Equity or debt instruments traded in public market
- Hold assets entrusted to them by their customers

• IFRS 8 *Operating Segments*
• IAS 33 *Earnings per Share*
Scenario 1

Parent prepares consolidated FS applying IFRS Standards

Subsidiary does not have public accountability

Eligible?

Scenario 2

Parent prepares consolidated FS applying local GAAP

Subsidiary does not have public accountability

Eligible?

Scenario 3

Ultimate parent does not prepare consolidated FS

Intermediate parent prepares consolidated FS applying IFRS Standards

Subsidiary does not have public accountability

Eligible?
How did the IASB develop reduced disclosure requirements?

The IASB applies the *principles for reducing disclosure requirements*

Disclosure requirements in IFRS Accounting Standards

Jump-start approach

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

Disclosure requirements in *Subsidiaries without Public Accountability: Disclosures*
The Principles for reducing disclosure requirements

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td><strong>Liquidity and solvency</strong></td>
<td>Entity’s ability to generate cash flows and continue as a going concern</td>
</tr>
<tr>
<td><strong>Short-term cash flows, obligations, commitments and contingencies</strong></td>
<td>Entity’s ability to meet its obligations</td>
</tr>
<tr>
<td><strong>Measurement uncertainty</strong></td>
<td>Significant judgements and estimates used by management</td>
</tr>
<tr>
<td><strong>Disaggregation of amounts</strong></td>
<td>Separation of amounts presented in the financial statements</td>
</tr>
<tr>
<td><strong>Accounting policy choices</strong></td>
<td>Accounting policies applied by the entity</td>
</tr>
</tbody>
</table>
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*
- IFRS 17 *Insurance Contracts*

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

IASB will consider reducing disclosure after a period of implementation
How to apply the Standard—Illustration

Inventories

Recognition, measurement and presentation requirements

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

Disclosure requirements

Go to the new Standard, sub-heading IAS 2 Inventories in the new Standard for disclosure requirements
Comparative information

**Applied the Standard in current period but not preceding period**

- **20X1**: Applied IFRS Accounting Standards but *not* the Standard
- **20X2**: Applies the Standard

<table>
<thead>
<tr>
<th>Less disclosures in the current period</th>
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<td>In 20X2 financial statements, provide 20X1 comparative information <em>only</em> for information reported in 20X2</td>
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**Applied the Standard in preceding period but not current period**

- **20X1**: Applies IFRS Accounting Standards but *not* the Standard
- **20X2**: Applies the Standard

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Unless another IFRS Accounting Standard requires or permits otherwise
Maintaining the new 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

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

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

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

- 68 comment letters
- ~300 comments on proposed disclosures
- 24 meetings with stakeholders
Changes from the Exposure Draft

Align language to IFRS Accounting Standards

Replace the footnotes with cross references and remove Appendix A

Add 26, delete 16 disclosure requirements
Effects of the new Standard
Benefits of applying the future Standard

- Reduced cost of preparing financial statements
- Simplification of the reporting process
- Improved application of IFRS Accounting Standards
- Subsidiary’s financial statements focused on their users
- Systemic long-term benefits in the reporting ecosystem
What are the costs?

The Standard aims to reduce costs in the reporting ecosystem, without compromising on the information needs of users.

- Initial implementation costs
- Ongoing costs are REDUCED
- Accounting standards currently applied in preparing eligible subsidiary’s financial statements
- The setup of the reporting process and systems within the group
- Other factors such as interaction with local law and regulation
Which standards are used today by eligible subsidiaries?

- IFRS Accounting Standards
  - Reduced disclosures, saving costs and effort
- IFRS for SMEs
  - Same accounting policies
  - Eliminating dual accounting
  - Systems simplifications
- Local GAAP
Jurisdiction profiles

- 158 jurisdictions require or permit IFRS Accounting Standards for entities whose debt or equity securities trade in a public market.

- 140 jurisdictions (approximately) require or permit some entities without public accountability to apply IFRS Accounting Standards.

- 87 jurisdictions require or permit application of the *IFRS for SMEs* Accounting Standard for entities without public accountability.
The effects of applying the Standard—illustration

Group X operates in 5 jurisdictions. The Parent is located in Jurisdiction A.
• Scenario 1: All 5 jurisdictions where the group operates adopt the Standard.
• Scenario 2: All jurisdictions except Jurisdiction D adopt the Standard.
• Scenario 3: All jurisdictions except Jurisdictions A and D adopt the Standard.

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Scenario 1</th>
<th>Scenario 2</th>
<th>Scenario 3</th>
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<tbody>
<tr>
<td>A</td>
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The group derives maximum benefits from the Standard
The group enjoys lower costs of doing business except in Jurisdiction D
The group benefits even if the Parent’s jurisdiction does not adopt the Standard
Effects of the Standard

Key takeaways

The effects of the Standard will differ from entity to entity.

Eligible entities determine whether to opt-in to the Standard.

Global adoption of the Standard is needed to realise its full benefit.
Frequently Asked Questions
## Frequently Asked Questions

<table>
<thead>
<tr>
<th>Compliance statement</th>
<th>An eligible subsidiary applying the Standard asserts compliance with IFRS Accounting Standards, including the Standard.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair presentation</td>
<td>Additional disclosures need to be provided when compliance with the specific requirements in the Standard are insufficient to enable users to understand financial position and financial performance of the entity.</td>
</tr>
<tr>
<td>Interaction with IFRS 1</td>
<td>First-time application of the Standard does not, in itself, result in an entity meeting the definition of a first-time adopter.</td>
</tr>
<tr>
<td>Financial statements</td>
<td>An eligible subsidiary is permitted to apply the Standard in its consolidated, separate or individual financial statements.</td>
</tr>
</tbody>
</table>
Questions for EEG members

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Thank you
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