IFRS Accounting

Staff paper

Agenda reference: 16D

IASB® meeting

Date	**February 2024**
Project	**Amendments to the Classification and Measurement of Financial Instruments**
Topic	**Reduced disclosure requirements for subsidiaries without public accountability**
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Purpose of this paper

1. The purpose of this paper is to ask the IASB to consider to what extent the new and amended disclosure requirements from the forthcoming *Amendments to the Classification and Measurement of Financial Instruments* should apply to subsidiaries without public accountability. The IASB's proposals will be included in the Catch-Up Exposure Draft (the catch-up Exposure Draft) that will be published after the issue of the new Standard *Subsidiaries without Public Accountability: Disclosures* (the Subsidiaries Standard) later in 2024.

2. This paper is structured as follows:

   (a) summary of staff recommendations and question for the IASB;

   (b) background; and

   (c) staff analysis and recommendations.

Summary of staff recommendations

3. The staff recommend:

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(a) to not include in the catch-up Exposure Draft the forthcoming amendments to disclosure requirements relating to equity instruments and other comprehensive income; and

(b) to include in the catch-up Exposure Draft the forthcoming disclosure requirements relating to contractual terms that could change the contractual cash flows of financial assets and financial liabilities not measured at fair value through profit or loss.

Question for the IASB
Does the IASB agree with the staff recommendations in paragraph 3?

Background

4. In September 2023, the IASB discussed the plan for incorporating new or amended disclosure requirements issued after February 2020 in the new Subsidiaries Standard and agreed that the catch-up Exposure Draft would propose disclosure requirements based on these new or amended requirements.[1]

5. The IASB's agreed approach to maintenance of the Subsidiaries Standard requires that potential changes to the Standard are reviewed at two levels:

   (a) in detail against the principles for reducing disclosures set out in paragraph BC34 of the Basis for Conclusions on the 2021 Exposure Draft *Subsidiaries without Public Accountability: Disclosures*, relating to:

      (i) information about short term cash flows and obligations, commitments and contingencies whether or not they are recognised as liabilities;

      (ii) information about liquidity and solvency;

      (iii) information on measurement uncertainties;

[1] See AP31 September 2023 and AP32 January 2024.

(iv) information about accounting policy choices; and

(v) disaggregation of amounts presented in the financial statements.

(b) at a high level, considering whether newly added or amended disclosure requirements would be proportional and would be in keeping with the goal of allowing reduced disclosures while meeting the needs of users of the financial statements of eligible subsidiaries.

Staff analysis and recommendations

6. The staff applied the approach outlined in paragraph 5 to assess whether the following new or amended disclosure requirements should apply to subsidiaries without public accountability:

   (a) amendments to the disclosure requirements relating to equity instruments and other comprehensive income (see the IASB's tentative decision in November 2023);

   (b) new disclosure requirements relating to contractual terms that could change the contractual cash flows of financial assets and financial liabilities not measured at fair value through profit or loss (see paper AP16A for this meeting).

Equity instruments and other comprehensive income

7. When developing the Subsidiaries Standard, the IASB decided to include the requirement in paragraph 6(h)(ii) of IFRS 7 to separately disclose the carrying amount of investments in equity instruments designated as measured at fair value through other comprehensive income at initial recognition, but not to include the detailed disclosures required by paragraphs 11A and 11B of IFRS 7.

8. The PIR of the classification and measurement requirements of IFRS 9 highlighted that some entities, including insurance entities, were applying or intending to apply

the irrevocable election in paragraph 5.7.5 of IFRS 9 more broadly than the IASB had intended.[2] Nevertheless, the staff remain of the view that the users of the financial statements of subsidiaries without public accountability do not require the more detailed disclosures required by paragraphs 11A and 11B of IFRS 7 to understand the effect of these instruments on the solvency and liquidity of the subsidiary.

9. Therefore, the staff do not recommend adding the disclosure requirements in paragraphs 11A and 11B of IFRS 7 to the Subsidiaries Standard. Consequently, the forthcoming amendments to these requirements also do not need to be included in the Catch-up Exposure Draft.

Contractual terms that could change the amount of contractual cash flows

10. As discussed in AP16A for this meeting, the IASB proposed new disclosure requirements relating to contractual terms that could change the contractual cash flows of financial assets and financial liabilities not measured at fair value through profit or loss. The staff recommended finalising the new disclosure requirements, subject to the refinement of the scope of these requirements.

11. Assuming the IASB agrees with the staff's recommendation in AP16A, the staff recommends that the new disclosure requirements should also be included in the Subsidiaries Standard. Information about contractual terms that could change the amount of contractual cash flows of financial assets and financial liabilities could provide information about short term cash flows and obligations, as well as solvency and liquidity, to users of a subsidiary's financial statements.

12. Subsidiaries without public accountability are unlikely to hold financial assets with such contractual terms, as these are normally held by banking entities. However, a subsidiary may hold a financial liability with such terms. If such a financial liability

[2] See AP3A June 2022.

constitutes a significant portion of an entity's financing, changes to the cash flows of the instrument are likely to impact the entity's liquidity. Because the information required to be disclosed is available in the contract, it should not require undue effort on the part of entities to provide this disclosure. At a high level, these new disclosure requirements can therefore be viewed as proportional.