IFRS Accounting

Staff paper

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IASB® meeting

Date	**June 2025**
Project	**Financial Instruments with Characteristics of Equity (FICE)**
Topic	**Proposed amendments—disclosures for eligible subsidiaries**
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Introduction

1. In this paper the staff summarises and analyses the feedback related to some of the proposed disclosure requirements for eligible subsidiaries, received from comment letters and outreach on the Exposure Draft *Financial Instruments with Characteristics of Equity* (the ED) issued in November 2023.[1]

2. This paper focuses particularly on the proposed disclosure requirements related to:

   (a) the nature and priority of claims on liquidation (draft paragraph 61A of IFRS 19 *Subsidiaries without Public Accountability: Disclosures*); and

   (b) the terms and conditions of financial instruments with both financial liability and equity characteristics (draft paragraphs 61B–61C of IFRS 19).[2,3]

3. The suggested changes to these disclosures are discussed in Agenda Paper 5B for this meeting as part of the proposed disclosure requirements in IFRS 7 *Financial*

[1] A subsidiary is an eligible subsidiary if (i) it does not have public accountability and (ii) it has an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Accounting Standards.

[2] The proposed disclosure requirements related to potential dilution of ordinary shares were not added to the disclosure proposals for eligible subsidiaries in the ED.

[3] The ED was published in November 2023 prior to the issuance of IFRS 19 in May 2024. Therefore, in the ED, 'IFRS 19' was referred to as 'IFRS XX.'. For the purposes of this paper, 'IFRS 19' will be used instead of 'IFRS XX', as referenced in the ED.

Instruments: Disclosures. In addition, this paper also discusses the additional proposed disclosure requirements related to the presentation of equity instruments (discussed in Agenda Paper 5A for this meeting) which were not included in the ED. The other proposed disclosure requirements for eligible subsidiaries in the ED will be discussed at a future meeting (see paragraph 11 of this paper).

4. At this meeting, the IASB will be asked whether it agrees with the staff recommendations to:

   (a) retain the proposed disclosure requirements mentioned in paragraph 2(a) of this paper subject to the changes discussed in Agenda Paper 5B for this meeting; and

   (b) include the disclosure requirements related to the presentation of equity instruments discussed in Agenda Paper 5A for this meeting, in IFRS 19.

Overview

5. This paper is structured as follows:

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

   (b) background;

   (c) feedback on the proposed disclosure requirements in the ED; and

   (d) staff analysis and recommendations:

      (i) general principles;

      (ii) nature of claims as at the reporting date;

      (iii) terms and condition; and

      (iv) disclosures related to presentation of equity instruments.

Summary of staff recommendations

6. The staff recommends retaining the proposed disclosure requirements for eligible subsidiaries set out in draft paragraphs 61A–61C of IFRS 19, subject to the

recommendations in paragraphs 8–9 of Agenda Paper 5B for this meeting. These disclosures relate to:

(a) the nature of claims disclosures (draft paragraphs 61A of IFRS 19) reflecting the changes to the proposed disclosure requirements in draft paragraph 30A–30B of IFRS 7; and

(b) the terms and conditions disclosures (draft paragraphs 61B–61C of IFRS 19) reflecting:

(i) that compound financial instruments are included (where relevant) in the scope of draft paragraphs 61B–61C of IFRS 19; and

(ii) the changes to the proposed disclosure requirements in draft paragraphs 30C–30E of IFRS 7.[4]

7. The staff recommends adding disclosure requirements related to the presentation of equity instruments in accordance with the recommendations in paragraphs 6 and 8 of Agenda Paper 5A for this meeting, to IFRS 19. Eligible subsidiaries would therefore be required to disclose:

(a) information to enable users of eligible subsidiaries' financial statements to understand how an entity's equity instruments relate to the attribution of profit or loss to different equity holders in the statement of profit or loss;

(b) information about terms and conditions affecting the nature, amount, timing and uncertainty of cash flows of equity instruments with participating rights (those without debt-like features);

(c) in the notes or present in the statement of changes in equity, the amounts of dividends recognised as distributions to the different categories of equity holders during the period, and the related amounts of dividends per share; and

[4] The staff think these recommendations would significantly reduce the potential burden on preparers while meeting the information needs of users of eligible subsidiaries' financial statements. Although the staff recommends no further reductions to the disclosures for eligible subsidiaries, the staff does not think this would undermine the purpose of IFRS 19 or its appeal as a voluntary standard which has reduced disclosures but still provides high quality information to users of financial statements. The staff expects that if eligible subsidiaries do not have financial instruments in the scope of the disclosure requirements, the requirements would not apply to them.

(d) a reconciliation of cumulative undeclared amounts for equity instruments with non-participating rights, showing separately the amounts allocated for the reporting period and any amounts declared during the period.

Questions for the IASB

Questions for the IASB
1. Do you agree with the staff's recommendations to retain the proposed disclosure requirements set out in draft paragraphs 61A–61C of IFRS 19, subject to the recommendations in Agenda Paper 5B for this meeting as summarised in paragraph 6 of this paper? 2. Do you agree with the staff's recommendations for disclosure requirements related to the presentation of equity instruments as summarised in paragraph 7 of this paper?

Background

8. In May 2024, the IASB issued the new standard IFRS 19 which permits eligible subsidiaries to apply IFRS Accounting Standards with reduced disclosure requirements. As part of the FICE ED, the IASB proposed amendments to IFRS 19 to include the new disclosures proposed for IFRS 7.

9. As explained in paragraph BC258 of the Basis for Conclusions on the ED, the IASB was guided by the broad principles for reducing disclosures explained in paragraph BC33 of the Basis for Conclusions on IFRS 19. Some disclosures in IFRS Accounting Standards are more relevant to investment decisions in public capital markets than to the transactions and other events and conditions encountered by typical eligible subsidiaries. Users of eligible subsidiaries' financial statements are particularly interested in information about:

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

(b) liquidity and solvency;

(c) measurement uncertainties;

(d) an entity's accounting policy choices; and

(e) disaggregation of amounts presented in eligible subsidiaries' financial statements.

10. Considering these broad principles, the IASB decided to propose the following disclosures for eligible subsidiaries in the ED:

(a) nature and priority of claims against the entity on liquidation arising from all financial liabilities and equity instruments in the scope of IAS 32 *Financial Instruments: Presentation*—categorised claims, distinguished between secured/unsecured and contractually subordinated/unsubordinated, and separate disclosures for instruments issued by the parent and those issued by subsidiaries in the consolidated financial statements (draft paragraph 61A of IFRS 19);

(b) terms and conditions of financial instruments with both financial liability and equity characteristics:

(i) the terms and conditions that determine classification (draft paragraph 61B(a) of IFRS 19);

(ii) information about debt-like characteristics in equity instruments and equity-like characteristics in financial liabilities (draft paragraph 61B(b) of IFRS 19); and

(iii) information about priority on liquidation (draft paragraph 61C of IFRS 19); and

(c) other disclosures:

(i) separate disclosures for gains or losses on financial liabilities containing contractual obligations to pay amounts that vary with the issuing entity's performance or changes in its net assets (draft paragraph 54(a)(i) of IFRS 19);

(ii) terms and conditions that become, or stop being, effective with the passage of time (draft paragraph 61D of IFRS 19); and

(iii) information about instruments that include obligations to purchase the entity's own equity instruments (draft paragraph 61E of IFRS 9).

11. Assuming that the IASB tentatively agreed with the staff recommendations in Agenda Paper 5B for this meeting, this paper specifically focuses on the feedback related to the proposed disclosures mentioned in paragraphs 10(a) and 10(b) of this paper. The proposed disclosures mentioned in paragraph 10(c) of this paper relate to classification topics and will be discussed at a future meeting.

12. In addition, the IASB has been redeliberating presentation requirements for equity instruments which includes related disclosure requirements. See Agenda Paper 5A for this meeting. This paper specifically focuses on whether these related disclosure requirements should be applicable for eligible subsidiaries.

Feedback on the proposed disclosure requirements in the ED

13. Overall, respondents did not provide significant feedback on the proposed disclosure requirements for eligible subsidiaries and only some respondents commented on the proposals described in paragraph 10 of this paper.[5]

14. Of those that commented on the proposed disclosure requirements, many respondents agreed with the IASB's approach of applying the principles in paragraph 9 of this paper to reduce disclosures for eligible subsidiaries. A few specifically commented on the usefulness of the proposed disclosures for users of eligible subsidiaries' financial statements saying that:

(a) the proposed disclosures relate to the short-term liquidity and solvency of the entity;

[5] Please refer to Agenda Paper 5 for the October 2024 IASB meeting for explanations of the terms used to broadly indicate the portion of respondents that reported a particular view. The feedback analysis on specific topics (paragraphs 19–20 of this paper) is based on the comments specifically made on each topic. Therefore, the terms that are used to indicate the portion of respondents that expressed a view are based on the population of respondents who specifically commented on each topic.

(b) the approach is appropriate because it would result in disclosures that do not impose costs on preparers that could exceed the benefits to users of eligible subsidiaries' financial statements; and

(c) a sufficient level of granularity of information would be provided.

15. However, some respondents reiterated the concerns they had raised with regards to the proposed amendments to IFRS 7, especially regarding disclosure overload. A few other respondents, mostly preparers, disagreed with the proposals because in their view the proposed disclosures:

(a) do not provide an appropriate level of relief to eligible subsidiaries. They were of the view that because these entities do not have public accountability, the costs associated with implementing the proposed disclosures would outweigh the potential benefit to users of eligible subsidiaries' financial statements.

(b) may be less relevant to users of eligible subsidiaries' financial statements. If subsidiaries are private and closely-held (ie private equity funds), users of financial statements would already have a comprehensive understanding of the contracts when making their investments.

16. A few respondents also made suggestions to further reduce the potential burden on preparers or enhance the understandability of the proposals. They asked the IASB to consider:

(a) providing an exemption, practical expedients or further simplification because the proposed requirements may be overly extensive for subsidiaries, especially those whose shares are 100% owned by the parent company. They suggested requiring disclosure of information that relates only to compound financial instruments or that would impact the decisions of a non-controlling interest holder.

(b) requiring the proposed disclosures only if an eligible subsidiary has liquidity or going concern risk. In their view, creditors and lenders generally rely on the parent company's ability to pay or provide financial guarantees before extending credit to its subsidiaries. Therefore, information about claims may only be useful to users of eligible subsidiaries' financial statements in cases where eligible subsidiaries are experiencing financial difficulties.

(c) providing further application guidance or illustrative examples on how the disclosures should be prepared.

17. These stakeholders suggested that the IASB perform a cost-benefit analysis or field-testing before proceeding with these proposals to ensure the right balance between the information needs of users of eligible subsidiaries' financial statements and the costs or operational burden for preparers.

18. In addition, a few national standard-setters mentioned that, at the time of providing feedback on the ED, IFRS 19 had not yet been endorsed in their jurisdictions, thus they had not assessed the appropriateness of the proposals at that time.

Nature and priority of claims on liquidation (draft paragraph 61A of IFRS 19)

19. Although only some respondents commented on this topic, most of them expressed concerns, including some that disagreed with the proposals. The concerns raised were similar to those raised on the proposed amendments to IFRS 7 for nature and priority of claims on liquidation. Most respondents referred to their earlier responses related to the disclosure proposals. See paragraphs 28–35 of Agenda Paper 5C for the October 2024 IASB meeting.

Terms and conditions (draft paragraphs 61B–61C of IFRS 19)

20. A few respondents commented on this topic and among those, most expressed concerns similar to the concerns they raised with regards to the proposed amendments to IFRS 7 for terms and conditions. See paragraphs 23–27 of Agenda Paper 5C for the October 2024 IASB meeting.

Staff analysis and recommendations

21. Given that the feedback provided on the proposed disclosure requirements for eligible subsidiaries was consistent with the feedback on the IFRS 7 proposals, the staff believes that the recommended changes in Agenda Paper 5B for this meeting will resolve the concerns raised. Any amendments made to IFRS 7 will automatically extend to IFRS 19. The staff therefore only considers whether further reductions to the proposed disclosures for eligible subsidiaries would be necessary.

22. As for all disclosure requirements in IFRS 19, as set out in paragraph 5 of IFRS 19, disclosures need not be provided if the information resulting from the disclosures would not be material.

General principles

Application guidance

23. As explained in paragraph BC53 of the Basis for Conclusions on IFRS 19, the IASB decided not to reproduce application guidance or implementation guidance of IFRS Accounting Standards in IFRS 19 because preparers could refer to individual IFRS Accounting Standards to access the relevant guidance. Consequently, the ED does not include application guidance in IFRS 19. Entities should therefore refer to relevant application guidance in IFRS 7 such as draft paragraphs B5–B5H of IFRS 7 (subject to any refinements), to appropriately prepare the information required by IFRS 19.

Cross-referencing

24. As noted in Agenda Paper 5B for this meeting (see paragraph 19 of that paper), the staff recommended the IASB allow cross-referencing to other documents that are available to users of the financial statements on the same terms as the financial statements and at the same time for the disclosures required by draft paragraphs 30A–

30E and 30G–30H of IFRS 7. This would be achieved by including references to these paragraphs in paragraph B6 of the Application Guidance for IFRS 7.[6]

25. Similarly, the staff believes that entities should refer to paragraph B6 of the Application Guidance to IFRS 7 if there are disclosures required by draft paragraphs 61A–61C of IFRS 19 included in documents outside the eligible subsidiaries' financial statements.

Nature of claims as at the reporting date (draft paragraphs 61A of IFRS 19)

26. The proposed disclosures aim to provide information about how the entity is financed, its capital resources and its ownership structure by categorising claims based on the contractual features. The disclosure is not intended to provide the relative ranking of individual financial instruments at an individual entity level assuming a liquidation basis.

27. In addition, as explained in paragraph BC261 of the Basis for Conclusions on the ED, the information would pertain to short- or long-term cash flows as well as liquidity and solvency, which would provide useful information for users of eligible subsidiaries' financial statements. Thus, the staff continues to believe that the proposed disclosure would provide useful information in eligible subsidiaries' financial statements.

28. As noted in Agenda Paper 5B for this meeting (see paragraphs 28–45 of that paper), the staff recommended clarifying the scope of the proposed nature of claims disclosures and requiring the disclosures to be based on the nature of claims at the reporting date. Because respondents expressed similar concerns on the proposed IFRS 19 disclosures related to nature and priority of claims as the concerns they raised

[6] The disclosures required by paragraphs 31–42 of IFRS 7 (nature and extent of risks arising from financial instruments) shall be either given in the financial statements or incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.

regarding the IFRS 7 disclosures, the changes made to IFRS 7 would automatically apply to IFRS 19 and the staff recommends no further reductions for eligible subsidiaries.

Terms and conditions (draft paragraphs 61B–61C of IFRS 19)

29. At its May 2023 meeting, the IASB had tentatively decided to include the same terms and conditions disclosures proposed in IFRS 7 within IFRS 19 without reduction for eligible subsidiaries. As mentioned in paragraphs BC260–261 of the Basis for Conclusions on the ED, the IASB concluded that those disclosures relate to short-term cash flows and solvency and liquidity. Thus, the staff continues to believe that the proposed disclosure would provide useful information in eligible subsidiaries' financial statements.

30. As noted in Agenda Paper 5B for this meeting (see paragraphs 47–59 of that paper), the staff recommended refinements to the proposed terms and conditions disclosures in IFRS 7 to reduce and simplify them. The staff considered whether eligible subsidiaries would benefit from additional clarifications or further reductions to the refinements related to:

    (a) compound financial instruments (see paragraphs 31–34 of this paper);

    (b) scoping out particular financial liabilities with equity-like characteristics (see paragraphs 35–36 of this paper); and

    (c) terms and conditions about priority on liquidation (see paragraphs 37–41 of this paper).

Compound financial instruments

31. The reason for refining the proposed IFRS 7 disclosures related to compound financial instruments was to simplify the disclosures and reduce the perceived confusion about duplication because some stakeholders considered compound financial instruments as financial instruments with both financial liability and equity characteristics.

32. When developing the ED, the IASB decided to include the proposed IFRS 7 disclosures for the terms and conditions of financial instruments with both financial liability and equity characteristics (including those that determine their classification as financial liabilities or equity instruments and those about priority on liquidation) in IFRS 19 for eligible subsidiaries (see paragraph 10(b) of this paper). However, the ED proposals do not explicitly include in IFRS 19, the proposed IFRS 7 disclosure requirements for compound financial instruments which were included separately in draft paragraph 17A of IFRS 7.

33. In the staff's view, information about the terms and conditions that determine the classification of compound financial instruments would be relevant for the decision-making requirements of users of eligible subsidiaries' financial statements because compound financial instruments could give rise to short-term cash flows and affect the entity's liquidity and solvency. This was confirmed by stakeholder feedback requesting disclosures about compound financial instruments (see paragraph 16 of this paper).

34. In addition, disclosing the terms and conditions that determine classification on initial recognition as a compound financial instrument, would help users of eligible subsidiaries' financial statements understand which financial liabilities and equity instruments are part of a compound financial instrument. Therefore, the staff thinks it would be appropriate to clarify that compound financial instruments are included (where relevant) in the scope of the disclosure requirements in draft paragraphs 61B–61C of IFRS 19, similarly to how they are recommended to be included in IFRS 7.

Excluding particular financial liabilities with equity-like characteristics

35. The proposed Application Guidance in draft paragraphs B5E–B5F of IFRS 7 explains the equity-like characteristics of financial liabilities that are in the scope of the disclosure requirements of draft paragraph 30D of IFRS 7. To address concerns about disclosure overload, the staff recommended excluding particular financial liabilities with equity-like characteristics.

36. Due to the importance to users of eligible subsidiaries' financial statements of information related to short-term cash flows, the staff does not think any additional reductions are needed in this regard. Eligible subsidiaries would refer to the Application Guidance in draft paragraphs B5E–B5F of IFRS 7 (subject to any refinements) to determine which instruments are within the scope of draft paragraph 61B of IFRS 19.

Terms and conditions about priority on liquidation

37. The recommended refinements to the requirements related to the terms and conditions about priority (see paragraphs 53–59 of Agenda Paper 5B for this meeting), address the concerns of respondents relating to the operational complexity of preparing information about terms and conditions relating to priority on liquidation.

38. Because respondents expressed similar concerns on the proposed IFRS 19 requirements for terms and conditions about priority on liquidation to the concerns they raised regarding the proposed amendments to IFRS 7 (see paragraph 20 of this paper), the changes made to IFRS 7 would automatically apply to IFRS 19 and the staff recommends no further reductions for eligible subsidiaries.

39. In the staff's view, information about the terms and conditions that could lead to a change in nature of the claims would provide useful information to users of eligible subsidiaries' financial statements. This would especially be the case if events such as conversion or write-off occur before liquidation. Providing this information meets the principles in paragraph 9 of this paper because the change in the nature of a claim could affect the short-term cash flows, and liquidity and solvency of an eligible subsidiary.

40. In addition, the staff thinks information about intra-group arrangements such as guarantees would provide useful information to users of eligible subsidiaries' financial statements. In the staff's view, guarantees can affect short-term cash flows, liquidity and solvency of the eligible subsidiary by increasing the likelihood that the subsidiaries' debts will be paid.

41. As noted in paragraph 16 of this paper, creditors and lenders usually rely on the parent company's ability to pay the debts of, or provide financial guarantees for, eligible subsidiaries. It is therefore important for users of eligible subsidiaries' financial statements to have a better understanding of the effects these types of intra-group arrangements have. In the staff's view, if all financial liabilities of the eligible subsidiary are guaranteed by the parent, this fact could be stated without providing detailed information about each guarantee.[7]

Disclosures related to presentation of equity instruments

42. As explained in Agenda Paper 5A for this meeting (see paragraphs 62–71 of that paper), the staff recommended additional disclosure requirements in IFRS 18 *Presentation and Disclosure in Financial Statements* and IFRS 7 to complement the proposed presentation requirements which were not proposed in the ED:
    - (a) additional disclosure requirements in IFRS 7 would require:
        - (i) information to enable users of financial statements to understand how an entity's equity instruments relate to attribution of profit or loss in the statement of profit or loss; and
        - (ii) terms and conditions affecting the nature, amount, timing and uncertainty of cash flows of equity instruments with participating rights (those without debt-like features); and
    - (b) additional disclosure requirement in IFRS 18 would require a reconciliation of the cumulative undeclared amounts for equity instruments with non-participating rights, showing separately the amounts allocated for the reporting period and any amounts declared during the period.

43. As explained in Agenda Paper 5A for this meeting (see paragraphs 72–74 of that paper) to maintain consistency with the refined presentation requirements, the staff

[7] In the staff's view, requiring this information would be consistent with the IASB's decision to require disclosures about intra-group guarantees in the *IFRS for SMEs Accounting Standard* (see paragraph 21.18 relating to financial guarantee contracts issued at nil consideration when the specified debtor is another entity within the group).

recommended updating the proposed amendments in the ED for dividends to be presented in the statement of changes in equity or in the notes. Entities would be required to either present in the statement of changes in equity or disclose in the notes, the amounts of dividends recognised as distributions to ordinary shareholders, participating rights holders, and non-participating rights holders during the period, and the related amounts of dividends per share (paragraph 110 of IFRS 18).

44. Eligible subsidiaries would be subject to the proposed presentation requirements for equity instruments which relate to attribution of profit or loss in the statement of profit or loss. However, it is important to note that the proposed amendment would only affect eligible subsidiaries with complex capital structures, having different types of equity instruments with different profit participation rights.

45. Those eligible subsidiaries that have such complex capital structures, would present the attribution of profit or loss and the staff believes the related disclosures (as described in paragraphs 42–43 of this paper) should therefore also be required. In the staff's view, users of eligible subsidiaries' financial statements would benefit from:

(a) understanding how an entity's equity instruments relate to attribution of profit or loss in the statement of profit or loss. This is because it would provide transparency about the profit participation rights of equity instruments and further disaggregation of amounts presented in eligible subsidiaries' financial statements which are important for an understanding of those statements.

(b) information about terms and conditions of equity instruments with participating rights. Similar to the reason for including information about terms and conditions of financial instruments with both financial liability and equity characteristics (see paragraph 29 of this paper), these terms and conditions pertain to short-term cash flows that users of eligible subsidiaries' financial statements are particularly interested in.

(c) the amendment related to dividends recognised as distributions. IFRS 19 already requires eligible subsidiaries to provide the information required by

IFRS 18 about the amount of dividends recognised as distributions to owners.[8] The amendment would result in further disaggregation of dividends recognised as distributions and information relevant to understanding short-term cash flows.

(d) the amendment related to cumulative undeclared amounts for equity instruments with non-participating rights. IFRS 19 already requires eligible subsidiaries to provide the information required by IFRS 18 about the amount of any cumulative preference dividends not recognised.[9] By requiring disclosure of a reconciliation of cumulative undeclared amounts for equity instruments with non-participating rights, users of eligible subsidiaries' financial statements would receive information relevant to understanding short-term cash flows and information about obligations arising on liquidation or on redemption by the issuer of the instruments.

46. Therefore, the staff recommends requiring the disclosure described in paragraphs 42–43 of this paper for eligible subsidiaries.

[8] In paragraph 110 of IFRS 18 and paragraph138 of IFRS 19, both IFRS Accounting Standards require an entity to either present in the statement of changes in equity or disclose in the notes the amount of dividends recognised as distributions to owners during the reporting period, and the related amount of dividends per share.

[9] In paragraph 132(b) of IFRS 18 and paragraph162(b) of IFRS 19, both IFRS Accounting Standards require an entity to disclose in the notes the amount of any cumulative preference dividends not recognised.