IFRS® Accounting

Staff paper

Agenda reference: 2

Emerging Economies Group meeting

Date	**October 2023**
Project	**Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures**
Topic	**Overview of the forthcoming IFRS Accounting Standard**
Contacts	**Carlo Pereras** (cpereras@ifrs.org) **Ozlem Arslan** (ozlem.arslan@ifrs.org) **Michelle Sansom** (msansom@ifrs.org)

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

2015 Agenda Consultation

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

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

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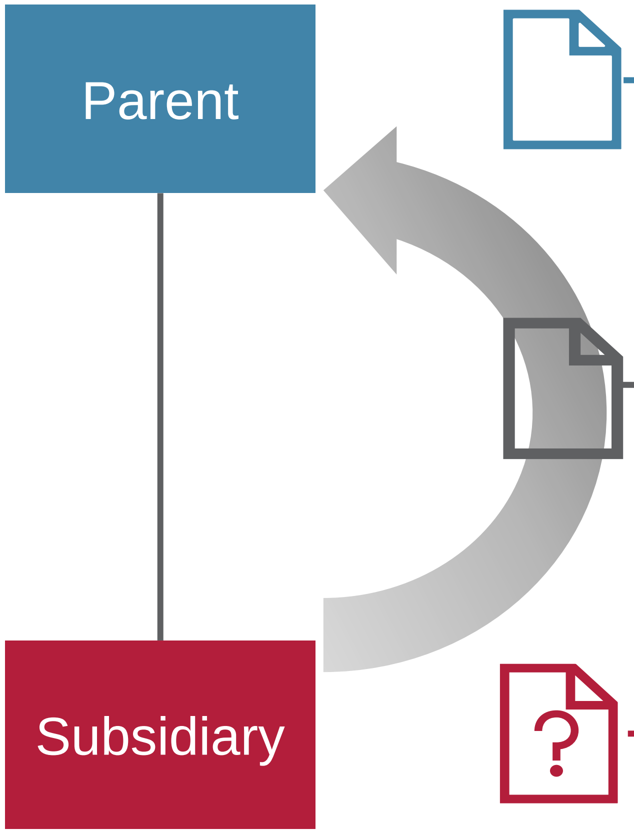
Why the IASB developed *Subsidiaries without Public Accountability: Disclosures*

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**?	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

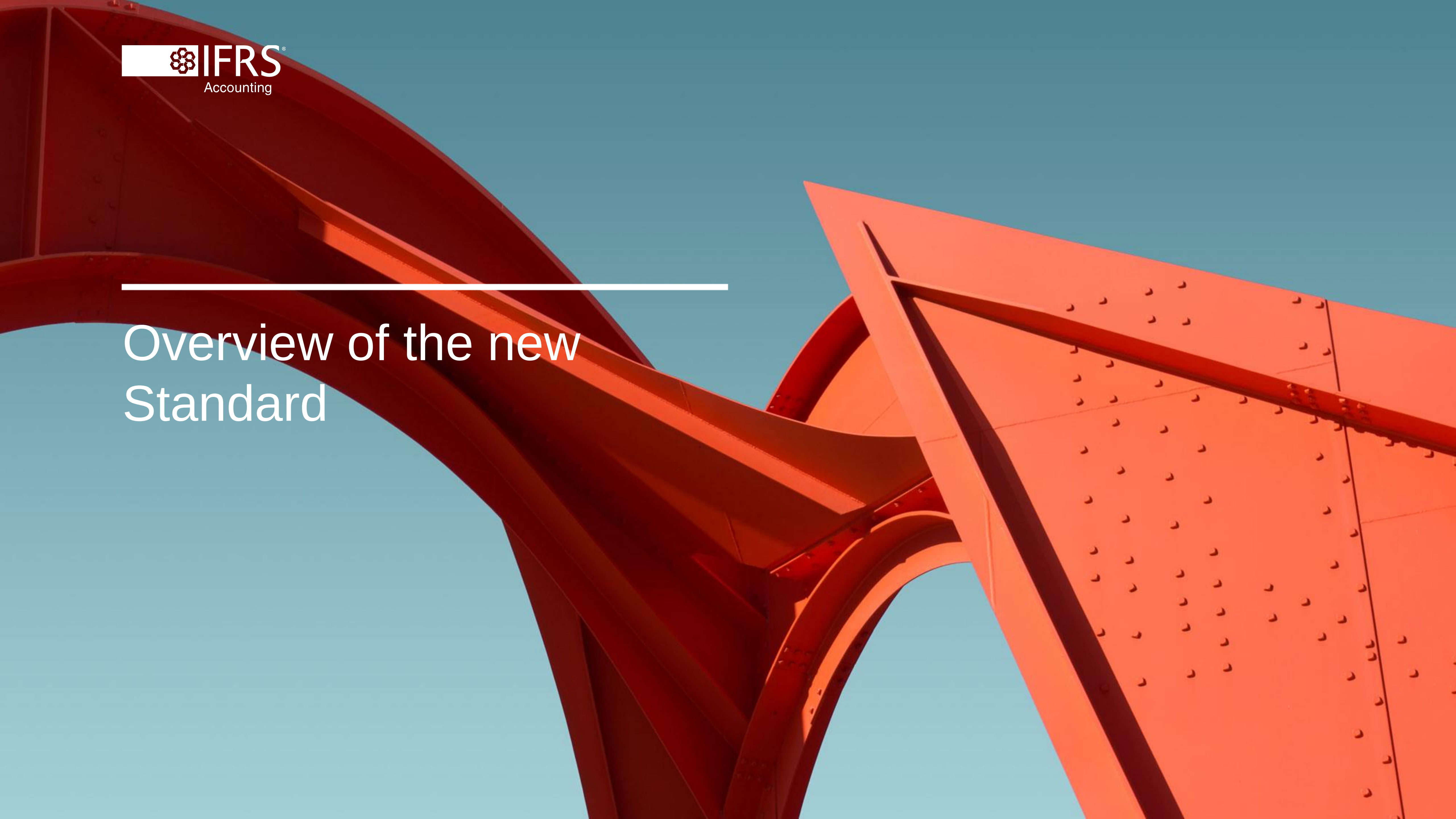
Subsidiary

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 new 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

Illustration: eligible subsidiaries

Scenario 1

P — Parent **prepares consolidated FS** applying **IFRS Standards**

S — Subsidiary does **not have public accountability**

Eligible? ✓

Scenario 2

P — Parent **prepares consolidated FS** applying **local GAAP**

S — Subsidiary does **not have public accountability**

Eligible? ✗

Scenario 3

UP — Ultimate parent does **not prepare consolidated FS**

IP — Intermediate parent **prepares consolidated FS** applying **IFRS Standards**

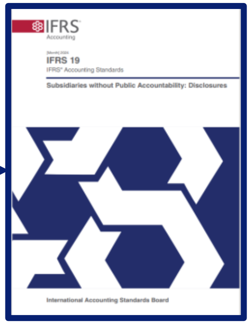
S — Subsidiary does **not have public accountability**

Eligible? ✓

How did the IASB develop reduced disclosure requirements?

Disclosure requirements in IFRS Accounting Standards

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



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.

The Principles for reducing disclosure requirements

Liquidity and solvency	Entity's ability to generate cash flows and continue as a going concern
Short-term cash flows, obligations, commitments and contingencies	Entity's ability to meet its obligations
Measurement uncertainty	Significant judgements and estimates used by management
Disaggregation of amounts	Separation of amounts presented in the financial statements
Accounting policy choices	Accounting policies applied by the entity

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 disclosure after a period of implementation

How to apply the Standard—Illustration

Inventories

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

Applied IFRS Accounting Standards but *not* the Standard

Applies the Standard

Less disclosures in the current period

In 20X2 financial statements, provide 20X1 comparative information *only* for information reported in 20X2

Applied the Standard in preceding period but not current period

Applied the Standard

Applies IFRS Accounting Standards but *not* the Standard

More disclosures in the current period

In 20X2 financial statements, provide 20X1 comparative information for information reported in 20X2

Unless another IFRS Accounting Standard requires or permits otherwise

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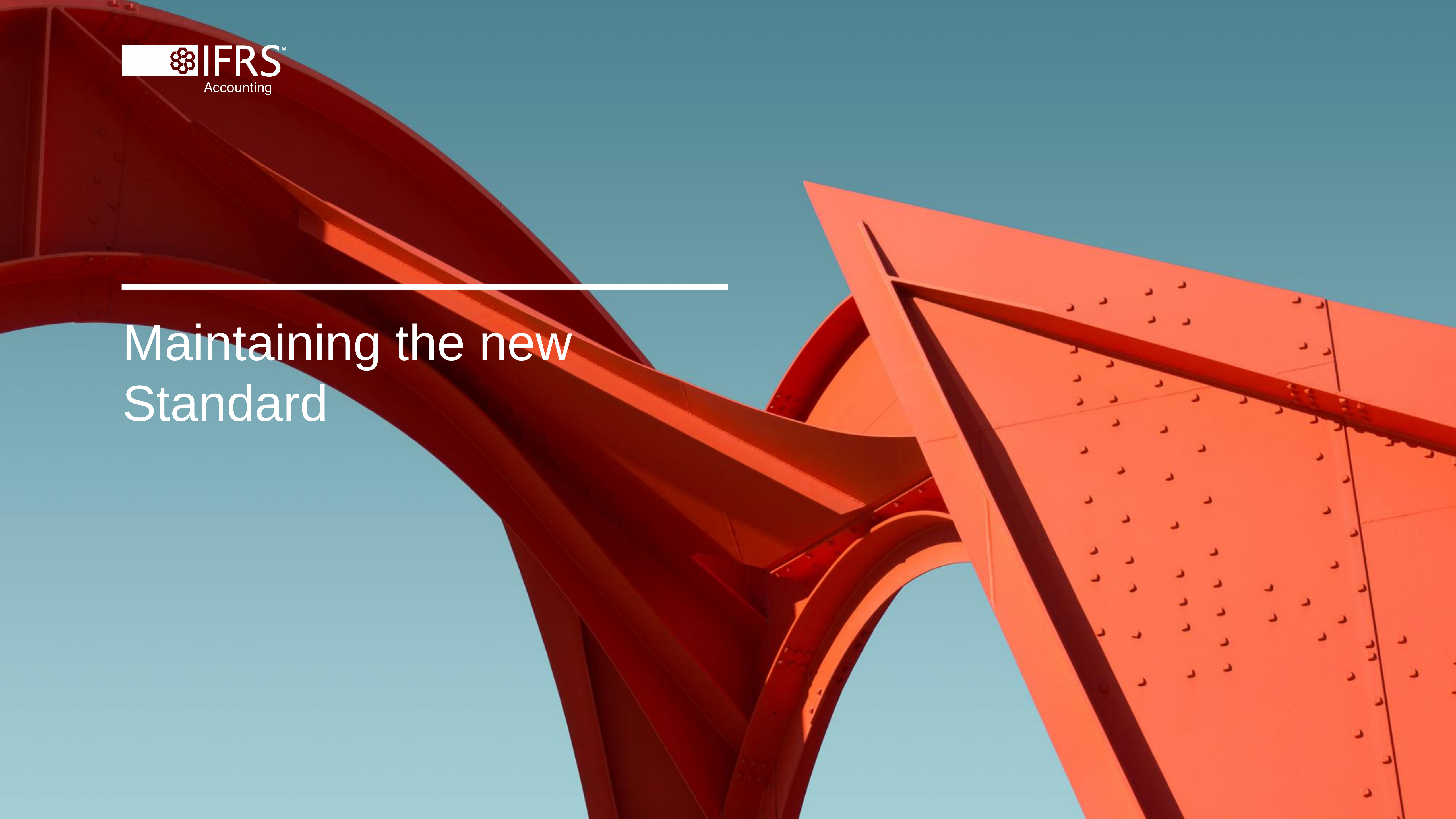

Maintaining the new Standard

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

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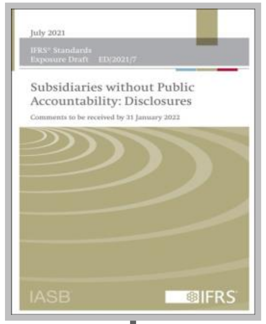
Obtain feedback and issue the new or amended IFRS Accounting Standard, accompanied by the amendments to this Standard

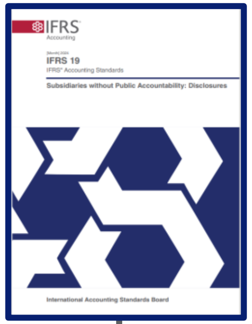
‘Catch-up’ Exposure Draft



February 2021

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*



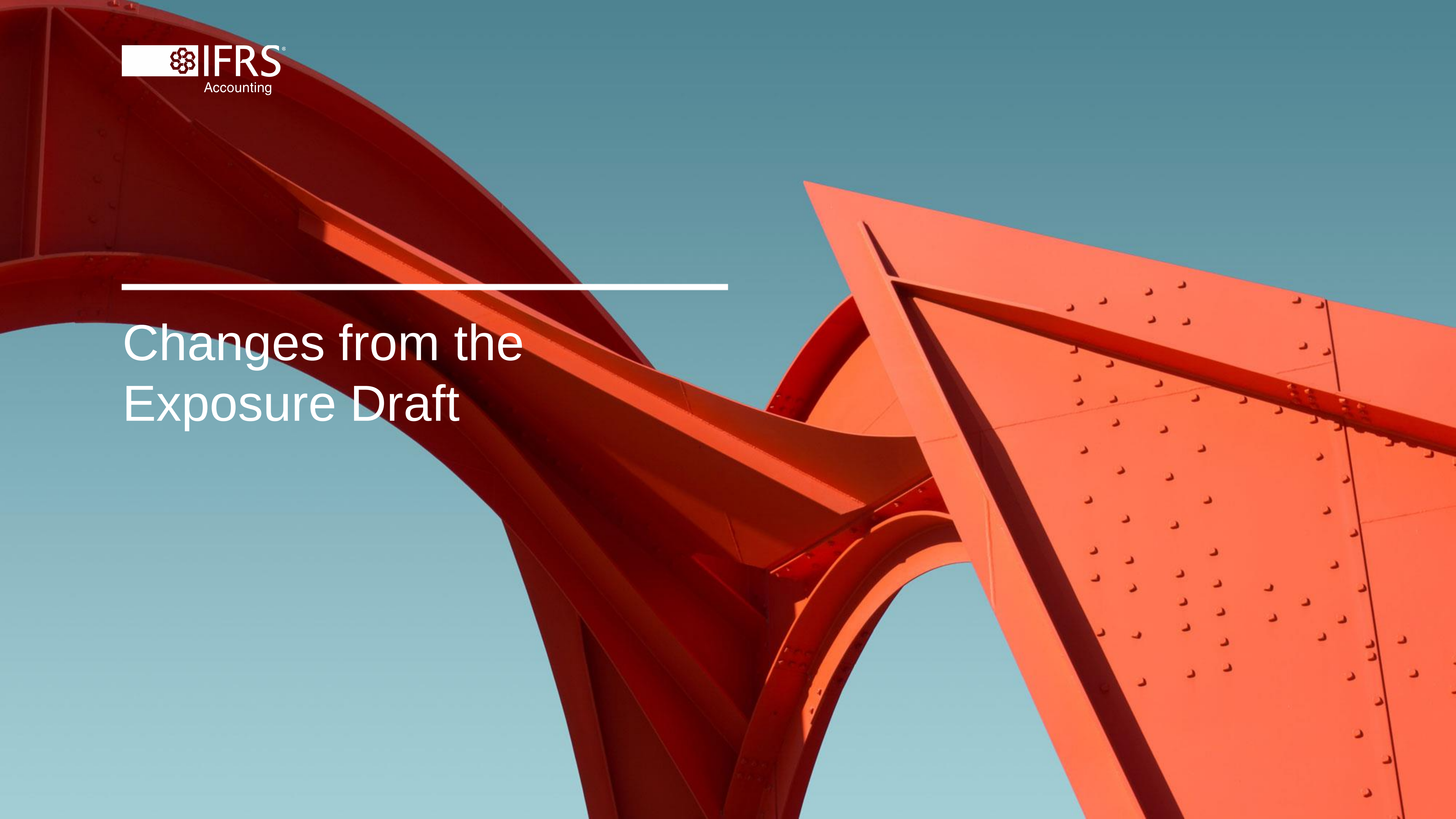
2024

‘Catch-up’ Exposure Draft

2024

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

Accounting standards currently applied in preparing eligible subsidiary's financial statements

Initial implementation costs

Ongoing costs are REDUCED

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

Local GAAP

- Same accounting policies
- Eliminating dual accounting
- Systems simplifications

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.

Jurisdiction	Scenario 1	Scenario 2	Scenario 3
A	✓	✓	×
B	✓	✓	✓
C	✓	✓	✓
D	✓	×	×
E	✓	✓	✓
	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

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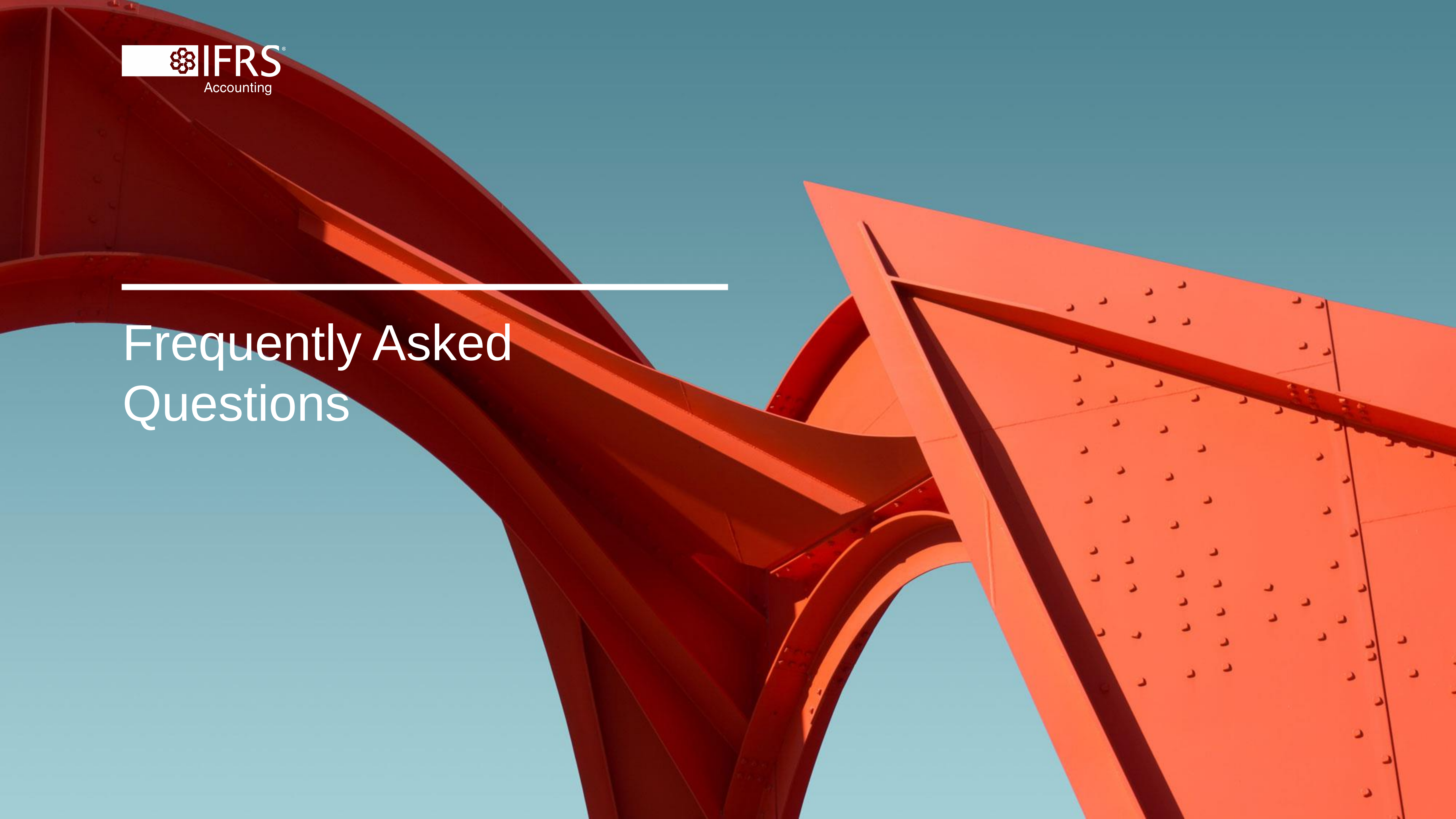
Frequently Asked Questions



Frequently Asked Questions

Compliance statement	An eligible subsidiary applying the Standard asserts compliance with IFRS Accounting Standards, including the Standard.
Fair presentation	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.
Interaction with IFRS 1	First-time application of the Standard does not, in itself, result in an entity meeting the definition of a first-time adopter.
Financial statements	An eligible subsidiary is permitted to apply the Standard in its consolidated, separate or individual financial statements.

Questions for EEG members

1. Do you have any questions on applying the new Standard?
2. What implementation support do you expect will be needed in your jurisdiction on new Standard?

Thank you

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