EFRAG
Financial reporting

UPDATED EFRAG SECRETARIAT BRIEFING: AN EU PERSPECTIVE ON THE SCOPE OF IFRS 19

WHO WOULD BE ABLE TO APPLY IT IN THE EU?

JUNE 2024

DISCLAIMER

This Briefing is issued by the EFRAG Secretariat to support the potential endorsement of IFRS 19 Subsidiaries without Public Accountability: Disclosures in Europe.

The views expressed in this Briefing are those of the EFRAG Secretariat and have not been approved by either the EFRAG TEG or the EFRAG Board. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

Any views expressed in this Briefing are tentative and reflect the EFRAG Secretariat's understanding of how the requirements of IFRS 19 Subsidiaries without Public Accountability: Disclosures would be applied in the EU subject to its endorsement.

In particular, the EFRAG Secretariat highlights that, for IFRS 19 to apply, the EU needs to endorse it before it comes into force. Regulation (EC) No 1606/2002 establishes a specific endorsement process under the responsibility of the European Commission together with its consultative and advisory organisations.

This Briefing is also intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on the endorsement of definitive IFRS Standards in the European Union (EU) and European Economic Area.

Table of Contents

CHAPTER 1: BACKGROUND 4

CHAPTER 2: SCOPE OF IFRS 19 *SUBSIDIARIES WITHOUT PUBLIC ACCOUNTABILITY: DISCLOSURES* 6

CHAPTER 3: APPLICATION OF IFRS IN THE EU...8

CHAPTER 4: INTERACTION WITH THE EU ACCOUNTING LAWS 9

APPENDIX A: OVERVIEW OF THE USE OF OPTIONS PROVIDED IN THE IAS REGULATION (1606/2002) IN THE EU...11

APPENDIX B: ORIGINAL BRIEFING PUBLISHED BY EFRAG SECRETARIAT IN DECEMBER 2021 (INCLUDES ILLUSTRATIVE EXAMPLES) 12

CHAPTER 1: BACKGROUND

Introduction

1.1 In December 2021, the EFRAG Secretariat published its original Briefing *An EU Perspective on the IASB's proposed scope*, outlining the application of the IASB's scope for the *Subsidiaries without Public Accountability: Disclosures* project in the EU landscape. The original Briefing provided an overview of the options used by EU Member States and the proposed scope of the IASB's project when considering EU accounting legislation. The original Briefing is included in Appendix B of this document.

1.2 In May 2024, the IASB published the IFRS 19 *Subsidiaries without Public Accountability: Disclosures* Standard. The Standard permits the eligible subsidiaries to apply IFRS Accounting Standards with reduced disclosure requirements.

1.3 The Subsidiaries Standard is subject to the endorsement process in order to be adopted by the EU, subject to the European endorsement process (Regulation No 1606/2002 and Council Decision 1999/468/EC). At the date of publication of this document, EFRAG did not receive an endorsement request from the EC. The document is published shortly after the publication of the standard to support the discussion amongst the European Member States and the decision to send an endorsement request by the EC.

1.4 If the Standard is endorsed, it would apply to entities located in the EU Member States that permit or require the use of IFRS in the annual accounts and/or consolidated financial statements of non-publicly traded entities in regulated markets. The impact of the Subsidiaries Standard will depend on the options provided by the Regulation (EC) No 1606/2002 used by the EU Member States.

1.5 If not endorsed, EU entities may still be affected if they have subsidiaries in non-EU countries where IFRS Accounting Standards apply.

1.6 In accordance with Article 5 of Regulation (EC) No 1606/2002, EU Member States have the option to permit or require the use of IFRS Standards for:

a) the annual accounts of companies that are publicly traded in regulated markets;

b) consolidated financial statements of companies that are non-publicly-traded in regulated markets; and/or

c) the annual accounts of companies that are non-publicly-traded in regulated markets.

1.7 However, even if a Member State permits the use of IFRS Standards, only the companies that fall within the scope of IFRS 19 are eligible to apply the reduced disclosure Standard. Based on the IFRS 19 scope, an entity would be permitted to apply the reduced disclosure requirements in its consolidated (subgroup), separate or individual financial statements if, at the end of its reporting period, it is a subsidiary that does not have public accountability and has a parent (ultimate or intermediate) that produces consolidated financial statements available for public use that comply with IFRS Standards.

1.8 It is therefore important to investigate whether there were any changes to the applicability of IFRS 19 since the publication of the original Briefing in December 2021 due to:

a) different options used by Member States in accordance with Article 5 of the Regulation (EC) No 1606/2002 permitting or requiring the use of IFRS Standards;

b) changes to the definition of public accountability or changes in other requirements outlined in the scope of IFRS 19; and/or

c) other updates, if applicable, compared to the original Briefing published in December 2021.

1.9 This Briefing will focus on point (a) above in Chapter 3, on point (b) in Chapter 2 and on point (c) in Chapter 4.

CHAPTER 2: SCOPE OF IFRS 19 *SUBSIDIARIES WITHOUT PUBLIC ACCOUNTABILITY: DISCLOSURES*

Public accountability

2.1 The notion of public accountability is defined within the *IFRS for SMEs* Accounting Standard and was discussed by the IASB as part of its deliberations on the second comprehensive review of the *IFRS for SMEs* Accounting Standard during the IASB meetings in May 2022 and June 2023.

2.2 This section reflects how the definition of public accountability might be amended in the second comprehensive review of the *IFRS for SMEs* Accounting Standard, taking into account the Exposure Draft *Third edition of the IFRS for SMEs* Accounting Standard, published in September 2022, and the IASB's tentative decisions after the issue of the ED.

2.3 The amendment is relevant for the *Subsidiaries without Public Accountability: Disclosures* Standard because any amendments to the description of public accountability within the *IFRS for SMEs* Accounting Standard will also affect IFRS 19. Therefore, despite the fact that the *IFRS for SMEs* Standard is not endorsed in the EU, amendments to the definition of public accountability remain relevant for IFRS 19.

2.4 The IASB discussed the definition of public accountability and agreed to modify the definition to list banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks as examples of entities that often meet the second criterion of public accountability instead of saying that most entities in these categories would meet the criterion. The amended definition has been reflected in IFRS 19 and will also appear in the forthcoming third edition of the *IFRS for SMEs* Accounting Standard.

2.5 Therefore, according to the IASB definition, an entity has public accountability if:

a) its debt or equity instruments are traded in a public market, or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or

b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (for example, most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks often would meet this second criterion).

Role of local legislative and regulatory authorities in jurisdictions

2.6 As part of the second comprehensive review of *IFRS for SMEs*, the IASB was asked to clarify the role of local legislative and regulatory authorities in jurisdictions in applying the definition of public accountability and of fiduciary capacity, which are not defined in many jurisdictions in Europe.

2.7 However, the IASB disagreed with the staff's proposal and decided to explain in the Basis for Conclusions of the *IFRS for SMEs* Standard its reasoning for choosing not to further clarify the role of jurisdictions in applying the definition of public accountability.

2.8 Reasons:

a) The IASB does not have the authority to force local legislation to adopt the Standard; it should not explain the role of local jurisdiction.

b) Standard setters could consider the clarification as a possibility to interpret the scope, meaning not only narrowing it down but also expanding it. The increasing of the scope by local authorities is not acceptable and would make it impossible to use the reduced version of IFRS.

c) Inserting a definition of fiduciary capacity could contradict existing practise in countries which use that definition.

2.9 Therefore, based on the analysis of the facts outlined above, the EFRAG Secretariat concluded that the scope of the IFRS 19 Standard did not change compared to the original Briefing published in December 2021. Additional clarifications were added as it relates to banks, credit unions, insurance companies, securities brokers/dealers, mutual funds, investment banks and similar companies.

CHAPTER 3: APPLICATION OF IFRS IN THE EU

3.1 As briefly described in Chapter 1, the use of IFRS 19 will depend on options used by Member States on the use of IFRS requirements for the annual accounts and/or consolidated financial statements of non-publicly traded entities in regulated markets. Member States may reconsider the options used on a continued basis. Entities located in those jurisdictions where IFRS use is required or permitted are non-publicly traded in regulated markets and do not have public accountability and can opt to apply IFRS 19 subject to its endorsement in the EU.

3.2 In December 2023, the European Commission published the latest overview of the use of options provided in the IAS Regulation (1606/2002) in the EU, which can be found in the Appendix A of this document. The overview is based on a survey sent to the Member States by the European Commission. Stakeholders are invited to further examine local country's laws and regulations when assessing the application of the IFRS 19 Standard.

CHAPTER 4: INTERACTION WITH THE EU ACCOUNTING LAWS

4.1 The original Briefing published in December 2021 outlined the interaction of the *Subsidiaries without Public Accountability: Disclosures* project with:

a) EU Accounting Regulation (Regulation (EC) No 1606/2002), also known as IAS Regulation;

b) EU Accounting Directive (Directive 2013/34/EU); and

c) other EU legislation (focusing on the interaction of definitions of PIEs and public accountability).

4.2 The thresholds for small and medium-sized enterprises were first proposed by the 4th and 7th Council Directives in 1978 and subsequently updated in 1984, 1990, 1994, 1999, 2003 and 2006. The thresholds were modified in 2013, with the adoption of Directive 2013/34/EU repealing the 4th and 7th Directive, then updated by Commission Delegated Directive (EU) 2023/2775 in 2023.

4.3 The current thresholds are:

	Micro	Small	Medium-sized
Balance sheet total	≤ € 450,000	≤ € 7,500,000	≤ € 25,000,000
Net turnover	≤ € 900,000	≤ € 15,000,000	≤ € 50,000,000
Average number of employees during the financial year	≤ 10	≤ 50	≤ 250

Source: Guidance on the implementation and interpretation of Directive 2013/34/EU on accounting rules, European Commission, 2023

Note: The thresholds of 7,5 m€ and 15m€ are subject to EU member states exercising the Member State Option in Art. 1 (2)(b) of the Delegated Directive (EU) 2023/2775.

4.4 The extent to which the potential use of IFRS 19 would be affected by the up-to-date thresholds is when Member States permit/require the use of IFRS based on the definitions of micro-, small and medium-sized entities. Currently, only two Member States use some of the definitions (Italy – 'small entities'; Malta – 'large and regulated entities'). More information on the options used by Member States can be found in Chapter 3 and Appendix A.

4.5 In relation to the EU Accounting Directive (Directive 2013/34/EU), the EFRAG Secretariat will issue a dedicated Briefing updating its previously published study on compatibility of the EU Accounting Directive with the IASB's Exposure Draft of IFRS 19. The original study can be found here.

APPENDIX A: OVERVIEW OF THE USE OF OPTIONS PROVIDED IN THE IAS REGULATION (1606/2002) IN THE EU

<table>
<tr><td rowspan="3"></td><td colspan="8">Listed undertakings</td><td colspan="14">Other (non-listed) undertakings</td></tr>
<tr><td colspan="8">Annual financial statements</td><td colspan="6">Consolidated financial statements</td><td colspan="8">Annual financial statements</td></tr>
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<tr><td>Cyprus</td><td colspan="4"></td><td colspan="4">Yes</td><td colspan="2"></td><td colspan="4">Yes</td><td colspan="4"></td><td colspan="4">Yes</td></tr>
<tr><td>Czech Republic</td><td colspan="4"></td><td colspan="4">Yes</td><td colspan="2">Yes</td><td colspan="4"></td><td colspan="4">(1)</td><td colspan="4"></td></tr>
<tr><td>Germany</td><td colspan="4">(2)</td><td colspan="4"></td><td colspan="2">Yes</td><td colspan="4"></td><td colspan="4">(2)</td><td colspan="4"></td></tr>
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<tr><td>Spain</td><td colspan="4"></td><td colspan="4"></td><td colspan="2">Yes</td><td colspan="4">(3)</td><td colspan="4"></td><td colspan="4"></td></tr>
<tr><td>Finland</td><td>Yes</td><td></td><td>Yes</td><td>Yes</td><td colspan="4"></td><td colspan="2">Yes</td><td colspan="4"></td><td colspan="4">(4)</td><td colspan="4"></td></tr>
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<tr><td>Poland</td><td colspan="4">Yes</td><td colspan="4"></td><td colspan="2">(11) or (12)</td><td>Yes</td><td colspan="3"></td><td colspan="4">(11) or (12)</td><td colspan="4"></td></tr>
<tr><td>Portugal</td><td colspan="3"></td><td>(1)</td><td>Yes</td><td>Yes</td><td>Yes</td><td>(7)</td><td></td><td>Yes</td><td>Yes</td><td>Yes</td><td>Yes</td><td></td><td colspan="3"></td><td>(1)</td><td>Yes</td><td>Yes</td><td>Yes</td><td></td></tr>
<tr><td>Romania</td><td colspan="4"></td><td>Yes</td><td></td><td>Yes</td><td>Yes</td><td colspan="2">Yes</td><td>Yes</td><td></td><td>Yes</td><td></td><td colspan="4"></td><td>Yes</td><td></td><td>Yes</td><td>(6)</td></tr>
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<tr><td>Slovenia</td><td colspan="2"></td><td colspan="2">(17)</td><td>Yes</td><td>Yes</td><td colspan="2">(18)</td><td colspan="2">(17)</td><td>Yes</td><td>Yes</td><td colspan="2">(18)</td><td colspan="2"></td><td colspan="2">(17)</td><td>Yes</td><td>Yes</td><td colspan="2">(18)</td></tr>
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</table>

Footnotes

(1) If the consolidated financial statements are prepared in accordance with IFRS Standards
(2) Only in addition to financial statements prepared in accordance with National GAAPs
(3) Groups in which there is a listed undertaking
(4) If mandatory audit
(5) Public Interest entities
(6) some Public Interest entities
(7) If no IFRS consolidated financial statements are published
(8) Equity issuers listed on the Main list and issuers of debt instruments
(9) Large and regulated entities
(10) Except for small entities
(11) Subsidiaries of a group in which parent or higher level parent prepares consolidated financial statements under IFRS
(12) Entities having filed or intending to file for admission to public trading
(13) If IFRS mandated by the Financial Supervisory Authority
(14) All credit and financial institutions under the Credit Institutions Act; Payment services providers; Pension insurance companies and funds managed by them; Investment agents; Managing companies and collective investment schemes; Persons managing alternative investment funds and collective investment schemes; National investment funds; Market player under the Financial Markets Instruments Act.
(15) Consolidated financial statements should be prepared on the acounting basis used for the preparation of annual financial statements
(16) Central depository
(17) if consolidation is not mandatory
(18) if consolidation is mandatory

Date: 31/12/2023

The overview above is provided by the European Commission and can be found on the website here. The overview is based on a survey sent by the EC to the Member States. Stakeholders are invited to further check local country's laws and regulations when assessing the application of IFRS 19 Standard.

APPENDIX B: ORIGINAL BRIEFING PUBLISHED BY EFRAG SECRETARIAT IN DECEMBER 2021

SUBSIDIARIES WITHOUT PUBLIC ACCOUNTABILITY: DISCLOSURES

WHO WOULD BE ABLE TO APPLY IT IN THE EU?

EFRAG SECRETARIAT BRIEFING: AN EU PERSPECTIVE ON THE IASB'S PROPOSED SCOPE

DECEMBER 2021

Executive Summary

ES1 It is well-known that in June 2002, the European Union (EU) adopted a Regulation on the application of international accounting standards (Regulation (EC) No. 1606/2002), which provides, among other things, the option for the Member States to permit or require companies to prepare their annual accounts and consolidated financial statements of companies that are non-publicly traded in regulated markets in conformity with IFRS as adopted by the EU.

ES2 In accordance with this legislation, many EU Member States already permit or require the use of IFRS in the annual accounts[*]. More specifically, they permit or require the use of IAS 27 *Separate Financial Statements* for the financial statements presented by a parent company or an investor. Therefore, the use of IAS 27 by a reporting entity will depend on how Regulation (EC) No. 1606/2002EU has been implemented by the EU Member State to which the entity belongs.

ES3 On 26 July 2021, the IASB published the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* (ED) with the objective of developing a reduced-disclosure IFRS Standard (draft Standard) that would apply on a voluntary basis to eligible subsidiaries without public accountability.

ES4 Similar to what already happened with IAS 27, the draft Standard (if published by the IASB) would be part of full IFRS Standards and is in principle subject to endorsement in the EU under Regulation (EC) No. 1606/2002. If endorsed, it would mainly directly affect the EU Member States that either permit or require the use of IFRS in the annual and/or consolidated financial statements of companies that are non-publicly traded in regulated markets (Article 5 of Regulation (EC) No 1606/2002).

ES5 When EFRAG discussed the IASB's proposals within the draft Standard with national standard setters and other European stakeholders during different outreach events, many questions were raised on who would be able to apply the IASB's proposals in the EU. In Chapter 2 *Who would apply the proposals in the EU*, the EFRAG Secretariat explains its assessment on who could apply these proposals in the EU and provides a number of examples. In particular, the EFRAG Secretariat highlights that if the EU decides to endorse this draft Standard for subsidiaries in the future, the EFRAG Secretariat expects that such draft Standard would only apply to the companies located in the EU Member States that permit or require the use of IFRS in the annual accounts and/or consolidated financial statements of companies that are non-publicly traded in regulated markets (Article 5 of Regulation (EC) No 1606/2002). The same logic already applies to IAS 27 when EU Member States permit or require companies to prepare their annual accounts in conformity with IFRS. However, if this Draft Standard is not endorsed, companies located in the EU Member States may still be affected by the Draft Standard when having subsidiaries located outside the EU in countries where IFRS Standards are applied.

ES6 Similarly, many questions were raised on the interaction between the IASB's proposals and the EU Accounting Legislation. Accordingly, in *Chapter 3: Interaction with EU Accounting Law*, the EFRAG Secretariat explains its assessment of the interaction between the IASB's proposals and the EU Accounting Legislation. In particular, the EFRAG Secretariat highlights that EU Member States that currently do not permit or allow the use of IFRS Standards for companies that are non-publicly traded in regulated markets (Article 5 of Regulation (EC) No 1606/2002) would not be affected by the IASB's proposals, even if endorsed in the EU. Nonetheless, those EU Members States may still use the IASB's proposals as a point of reference for their local accounting

[*] Includes separate and individual financial statements

requirements (similar to what happened with the *IFRS for SMEs* Standard). Still, any comparison between local GAAP and a reduced-disclosure IFRS Standard should always have in mind its compatibility with the Accounting Directive 2013/34/EU.

CHAPTER 5: BACKGROUND

Introduction

1.1 In August 2015, the IASB published a *Request for Views: 2015 Agenda Consultation*. Some respondents requested that the IASB permit subsidiaries with a parent that applies IFRS Standards in its consolidated financial statements to apply IFRS Standards with reduced disclosures. This approach would reduce costs without removing information needed by the users of the subsidiaries' financial statements.

1.2 The IASB added a research project to its agenda pipeline in 2016 and it became active in March 2019. The research project assessed whether it would be feasible to permit subsidiaries that are SMEs to apply the recognition and measurement requirements of IFRS Standards and the disclosure requirements of the *IFRS for SMEs* Standard with minimal tailoring of those disclosure requirements.

1.3 The IASB recognised that the disclosure requirements of the *IFRS for SMEs* Standard would need to be tailored to reflect differences in the recognition and measurement requirements between IFRS Standards and the *IFRS for SMEs* Standard. However, the IASB wished to keep any tailoring to a minimum.

1.4 The IASB discussed the research results at its meetings between September and December 2019. At its meeting on 28 January 2020, the IASB decided to move the *Subsidiaries that are SMEs* project from the research programme to the standard-setting programme.

1.5 Between October 2020 and January 2021, the IASB discussed issues that were identified during the preparation and review of the analysis and suggested disclosure requirements.

IASB Exposure Draft *Subsidiaries without Public Accountability: Disclosures*

1.6 On 26 July 2021, the IASB published the Exposure Draft *Subsidiaries without Public Accountability: Disclosures (ED)* with the objective of developing a reduced-disclosure IFRS Standard that would apply on a voluntary basis to subsidiaries without public accountability.

1.7 The draft Standard would be part of full IFRS Standards and in principle be subject to endorsement in the EU under Regulation (EC) No. 1606/2002.

1.8 If endorsed by the EU, the direct effects on reporting entities of an IFRS Standard based on this ED would depend on how Article 5 of the Regulation No. 1606/2002 has been implemented by the EU Member State to which the entity belongs (and have not used the subsidiary exemption in Article 37 of the 2013 Accounting Directive). This is further elaborated in Chapters 2 and 3 of this document.

1.9 If not endorsed, companies located in the EU Member States may still be affected by the Draft Standard if they have subsidiaries located outside of the EU in countries where IFRS Standards are applied.

EFRAG Draft Comment Letter

1.10 On 30 September 2021, EFRAG published its Draft Comment Letter (DCL), where it welcomes the IASB's efforts in developing reduced-disclosure requirements for subsidiaries without public accountability and cautiously supports the proposed scope of the ED.

1.11 However, EFRAG recognises that there is also support for the alternative view expressed by Ms Françoise Flores in the Basis for Conclusions of the ED. Therefore, EFRAG has decided to ask constituents for their views on the scope of the ED, including a question to better understand which entities issue insurance contracts and are in the scope of the project.

1.12 In addition, EFRAG raises some concerns and provides suggestions to the IASB. For example, EFRAG:

a) suggests that the key principles proposed by the IASB in paragraph BC33 of the Basis for Conclusions should encompass cost-benefit considerations;

b) highlights the risks of not considering the existing disclosure requirements in IFRS Standards in the light of BC157 when there are no recognition and measurement differences between IFRS for SMEs and IFRS Standards;

c) suggests that the reasoning for the exceptions is improved;

d) suggests considering the interaction between the disclosure requirements of the ED and the disclosure requirements of the ED Disclosure Requirements in IFRS Standards – A Pilot Approach;

e) considers that the application of a full set of disclosure requirements for IFRS 17 *Insurance Contracts* can be burdensome and costly for eligible subsidiaries; and

f) suggests a number of additional disclosures that it considers relevant for users of financial statements. Nonetheless, EFRAG acknowledges that the assessment of users' needs in terms of disclosures is difficult and subjective.

1.13 EFRAG's draft comment letter can be found here and stakeholders comments are welcome by 26 January 2022.

CHAPTER 2: WHO COULD APPLY THE PROPOSALS IN THE EU?

When EFRAG discussed this project with national standard setters and other stakeholders during different outreach events, many questions were raised on who would be able to apply the IASB's proposals in Europe. In this section, the EFRAG Secretariat explains its assessment on who could apply the IASB's proposals in the EU.

SCOPE OF THE EXPOSURE DRAFT

2.1 In paragraph 6 of the ED, the IASB proposes that an entity would be permitted to apply the proposed disclosure requirements in its consolidated (subgroup), separate or individual financial statements if, at the end of its reporting period, it is a subsidiary that does not have public accountability and has a parent (ultimate or intermediate) that produces consolidated financial statements available for public use that comply with IFRS Standards.

Public accountability

2.2 In paragraph 7 of the ED, the IASB clarifies that an entity has public accountability, if its debt or equity instruments are traded in a public market (or it is in the process of issuing such instruments for trading in a public market), or if it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.

2.3 It is worth noting that 'Public Interest Entities' (PIEs) is a European concept defined by European legislation (Article 2 of the Accounting Directive 2013/34/EU) that is different from the IASB's definition (more details in Chapter 3).

Subsidiaries of a parent that produces consolidated financial statements available for public use that comply with IFRS Standards

2.4 In accordance with paragraph 6 of the ED, the proposed disclosure requirements would only be available to subsidiaries of a parent (ultimate or intermediate) that produces consolidated financial statements available for public use that comply with IFRS Standards.

2.5 In paragraph BC93 of the Basis for Conclusions, the IASB explains that it aims to reduce the cost of financial reporting for subsidiaries that report to a parent applying IFRS Standards while maintaining the usefulness of the subsidiary's financial statements to users. In paragraph BC21 of the Basis for Conclusions, the IASB explains that 'restricting the eligibility is consistent with the stakeholder feedback when the Board added the project to its research pipeline'. In paragraph BC16 of the Basis for Conclusions, the IASB further explains why it did not expand the scope of the project.

At the end of the reporting period

2.6 In paragraph 6 of the ED, the IASB states that only an entity that is a subsidiary at the end of its reporting period can apply its proposed disclosure requirements.

2.7 In paragraph BC19 of the Basis for Conclusions the IASB explains that referring to the end of the reporting period is simple and clear. For example, if the IASB were to permit an entity that was a subsidiary at any time during the reporting period to apply the proposed disclosure requirements, an entity that ceased to be a subsidiary near the start or at the end of its reporting period would remain eligible to apply the disclosure requirements for that reporting period (even if it was not a subsidiary for most of the reporting period).

Electing to apply the proposed disclosure requirements

2.8 It is also worth noting that in accordance with paragraph 9 of the draft Standard, its application would be optional and entities could apply or revoke them at any time.

Who would be out of the scope of the IASB's proposals?

2.9 Most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would not be able to apply the IASB's proposals, because they typically hold assets in a fiduciary capacity for a broad group of outsiders as one of their primary businesses. Nonetheless, if the entities identified above (i.e. banks, credit unions, insurance companies, etc) are parents or intermediate parents and have subsidiaries without public accountability, then these subsidiaries may apply the IASB's proposals.

2.10 In addition, an intermediate parent that has subsidiaries that have public accountability (e.g. those indicated in paragraph 2.9 above) would normally not be able to apply the IASB's proposals in its consolidated financial statements. For example, as illustrated in Examples 5 and 9 below, an intermediate parent may have to prepare two sets of financial statements: (sub)consolidated and separate financial statements. However, the EFRAG Secretariat notes that, although the intermediate parent may be able to apply the IASB's proposals to its separate financial statements, it may not be able to apply the IASB's proposals to its (sub)consolidated statements. The intermediate parent would not be able to apply the IASB's proposals in the (sub)consolidated financial statements if one of its subsidiaries has public accountability as the group is presented as one. However, the entity would be able to apply the IASB's proposals in its separate financial statements because its subsidiaries are not consolidated and they are accounted for as simple investments (i.e. cost, fair value or under the equity method).

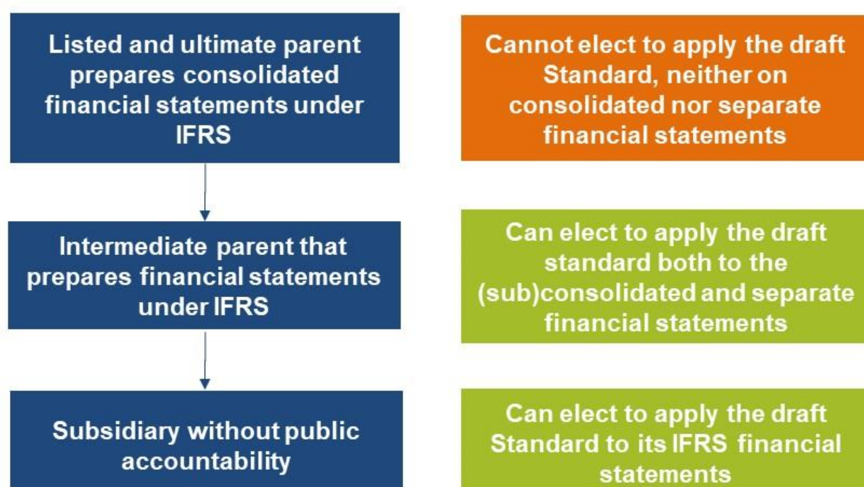
2.11 Finally, subsidiaries of an investment entity, when the investment entity (the parent) does not present consolidated financial statements, would not be able to apply the IASB's proposals.

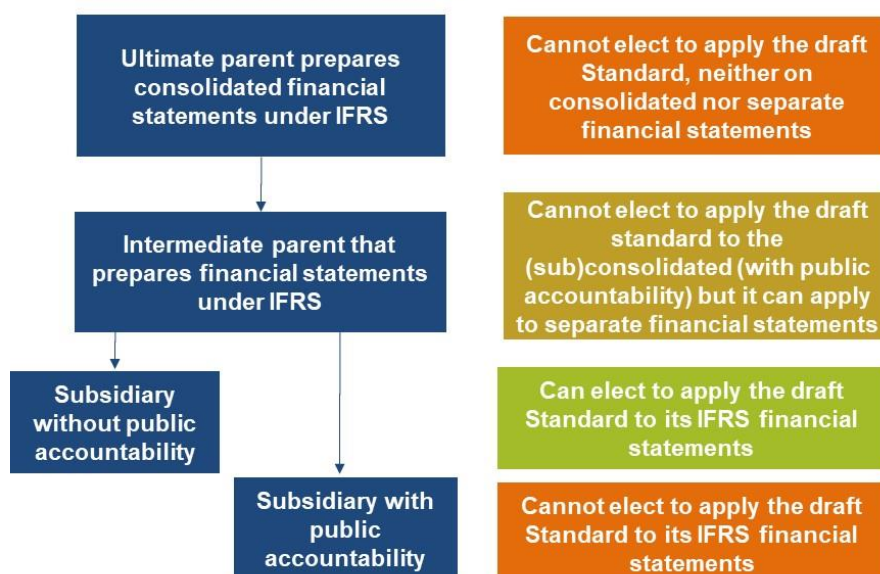
Examples on the scope as defined by the IASB

EXAMPLE 2

EXAMPLE 3

EXAMPLE 4





Application of the IASB's proposals in the EU

2.12 In accordance with Regulation (EC) No 1606/2002, European publicly traded companies have to prepare consolidated accounts in conformity with IFRS Standards. In addition, in accordance with Article 5 of Regulation (EC) No 1606/2002, EU Member States have the option to permit or require the use of IFRS Standards for:

a) the annual accounts of companies that are publicly traded in regulated markets;

b) consolidated financial statements of companies that are non-publicly-traded in regulated markets; and/or

c) the annual accounts of companies that are non-publicly-traded in regulated markets.

2.13 Currently, many EU Member States use some or all of the options provided by the Regulation (EC) No 1606/2002 (please see Appendix 1 *Overview of the use of options in the IAS Regulation*, an EC Staff Working Document on the fitness check on public reporting by companies).

2.14 However, some EU Member States do not use any of the options and instead require the use of national laws, regulations and administrative provisions, in compliance with the Accounting Directive 2013/34/EU, for the annual financial statements and/or consolidated financial statements of companies that are non-publicly traded in regulated markets.

2.15 If the EU decides to endorse this draft Standard for subsidiaries in the future, the EFRAG Secretariat expects that it would apply to the companies located in the EU Member States that permit or require the use of IFRS in the annual accounts and/or consolidated financial statements of companies that are non-publicly traded in regulated markets (Article 5 of Regulation (EC) No 1606/2002).

2.16 The same logic already applies to IAS 27 when EU Member States permit or require companies to prepare their annual accounts in conformity with IFRS Standards. (More detailed information about our proactive work on Separate Financial Statements is available on the EFRAG website).

2.17 However, only the companies in the scope of the project (as described above) could apply the reduced-disclosure IFRS Standard. Therefore, in accordance with Article 5 of Regulation (EC) No 1606/2002, the EFRAG Secretariat expects that only the following companies could use the reduced-disclosure IFRS Standard:

a) the consolidated financial statements of companies that are non-publicly traded in regulated markets that:

(i) are also subsidiaries;

(ii) do not have public accountability; and

(iii) their ultimate or intermediate parent produces financial statements available for public use that comply with EU Endorsed IFRS Standards.

b) The annual accounts of companies that are non-publicly traded in regulated markets (including individual and separate financial statements) that:

(i) are subsidiaries;

(ii) do not have public accountability; and

(iii) their ultimate or intermediate parent produces financial statements available for public use that comply with EU Endorsed IFRS Standards.

2.18 However, it is worth noting that companies publicly traded in a non-regulated market (e.g. growth-share markets and over-the-counter markets) would meet the definition of having public accountability (please see paragraph 3.20 below). Thus, although these entities would be under the scope of Article 5 of Regulation (EC) No 1606/2002, they would be out of the scope of the IASB proposals and would not be able to present reduced disclosure requirements.

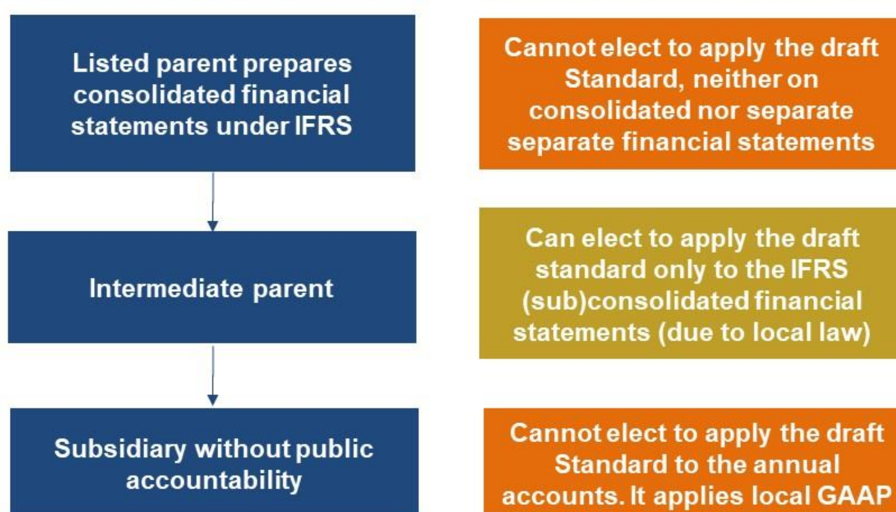
2.19 If not endorsed, companies located in the EU Member States may still be affected by the Draft Standard if they have subsidiaries located outside of the EU in countries where IFRS Standards are applied.

2.20 Finally, it is worth noting that currently the *IFRS for SMEs* Standard is not used in the EU and there is no endorsement process related to it. Therefore, in the EU, the IASB's proposals would not be seen as competing with the *IFRS for SMEs* Standard.

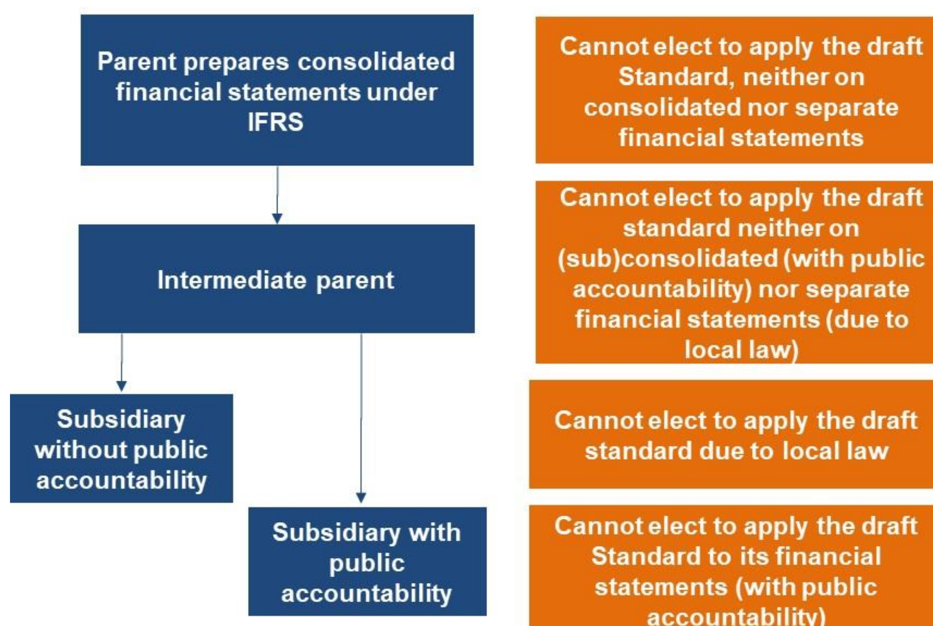
Examples on the scope of the project when considering EU accounting legislation

EXAMPLE 7 – EU MEMBER STATE DOES NOT PERMIT THE USE OF IFRS STANDARDS IN THE ANNUAL ACCOUNTS

EXAMPLE 8 – FOR NON-LISTED ENTITIES, EU MEMBER STATE PERMITS THE USE OF IFRS IN THE CONSOLIDATED FINANCIAL STATEMENTS BUT NOT IN THE ANNUAL ACCOUNTS (E.G. AUSTRIA)



EXAMPLE 9 - FOR NON-LISTED ENTITIES, EU MEMBER STATE PERMITS THE USE OF IFRS IN THE CONSOLIDATED FINANCIAL STATEMENTS BUT NOT IN THE ANNUAL ACCOUNTS (E.G. FRANCE)



CHAPTER 3: INTERACTION WITH EU ACCOUNTING LAW

When EFRAG discussed this project with national standard setters and other European stakeholders during different outreach events, many questions were raised on the interaction between the IASB's proposals and the EU Accounting Legislation. In this section, the EFRAG Secretariat explains its assessment of the interaction between the IASB's proposals and the EU Accounting Legislation.

Interaction with EU Accounting Regulation (Regulation (EC) No 1606/2002)

3.1 The use of the IASB draft Standard would depend on the EU Member State options on the use of IFRS requirements for the annual accounts and/or consolidated financial statements of companies that are non-publicly traded in regulated markets.

When companies are permitted or required to prepare annual accounts and/or consolidated financial statements of non-publicly traded companies in regulated markets under IFRS

3.2 From Appendix 1 *Overview of the use of options in the IAS Regulation*, we can observe that currently many EU Member States are using the options included in Regulation No. 1606/202 in respect of annual accounts and of non-publicly traded companies (Article 5 of Regulation (EC) No 1606/2002). In those EU Member States, companies may have the option or are required to use IFRS requirements in the annual accounts and/or consolidated financial statements of companies that are non-publicly traded in regulated markets. In such cases:

a) if a company already applies IFRS Standards to its financial statements and is under the scope of the proposals, the company would benefit from significantly fewer disclosure requirements;

b) if a company currently applies local GAAP to its financial statements but is under the scope of the IASB's proposals, the company may decide to prepare financial statements in accordance with IFRS Standards (assuming that it is allowed by the Member State). Such a company would incur first-time implementation costs (as recognition and measurement requirements may differ between IFRS Standards) and the company may have to provide additional disclosures when compared with local GAAP. In addition, the company will have to consider all future new and amended IFRS Standards when preparing its financial statements. These costs would have to be weighed against the benefits of applying the same accounting policies as the parent (i.e. benefits of the subsidiary not being required to maintain additional accounting records).

3.3 However, in some jurisdictions, companies are permitted to use IFRS Standards but are still required to prepare annual accounts under local GAAP (for tax purposes, distribution of dividends or other legal reasons) or exempted from preparing (sub)consolidated financial statements (e.g. for subgroups that have an IFRS intermediate or ultimate parent company that already prepares consolidated financial statements). In such cases, the benefits of applying the draft Standard would be limited.

3.4 It is worth noting that for those EU Member States that permit or require the use of IFRS in the annual financial statements and/or consolidated financial statements of companies that are non-publicly traded in regulated markets, they can always determine who can apply IFRS Standards under the Article 5 of the Regulation (EC) No 1606/2002, and consequently who can apply the Draft IFRS Standard proposed by the IASB in its jurisdiction. For example, when applying Article 5 of the Regulation (EC) No 1606/2002, an EU Member State may restrict the use of IFRS Standards to specific sectors such as real state, to entities that are either audited or meet other criteria.

3.5 Finally, EFRAG Secretariat notes that the current scope of the project may lead to 'inequalities' for non-publicly traded companies that currently already apply IFRS Standards. These inequalities could arise because:

a) those that are in the scope of the project would be able to benefit from significantly fewer disclosure requirements;

b) those that are not in the scope of the project (e.g. non-publicly traded subsidiaries that have a fiduciary capacity or non-subsidiaries single entities) will be required to prepare full disclosures from IFRS Standards.

When companies are not permitted or required to prepare annual accounts and/or consolidated financial statements of companies that are non-publicly traded in regulated markets under IFRS

3.6 EU Member States that currently do not permit or allow the use of IFRS Standards for companies non-publicly traded in regulated markets would not be affected by the IASB proposals, even if endorsed in the EU.

3.7 However, if considered useful, these EU Member States might reconsider the use of the options given by the Regulation (EC) No 1606/2002 and start allowing or permitting the use of IFRS Standards in the annual accounts and/or consolidated financial statements of companies that are non-publicly traded in regulated markets, including for tax and other legal purposes.

3.8 Finally, the EFRAG Secretariat notes that expanding the scope to all entities without public accountability may raise calls from European Stakeholders in some EU Member States to increase the use of IFRS and adopt the draft IFRS Standard. Particularly those jurisdictions that require the use of local GAAP for annual accounts and consolidated financial statements of companies that are non-publicly traded in regulated markets.

Interaction with EU Accounting Directive (Directive 2013/34/EU)

3.9 The use of the IASB's draft Standard is not directly related and does not depend on the Accounting Directive 2013/34/EU (as explained above, it is mainly related to the use of options in Article 5 of the Regulation (EC) No. 1606/2002). However, if more entities elect to use IFRS Standards and consequently move from local GAAP to IFRS Standards (in accordance with the options provided by the Regulation (EC) 1606/2002 as described above), then the IASB's draft Standard could be seen as competing with the Accounting Directive 2013/34/EU, even if only in a limited way (when considering the narrow scope proposed by the IASB).

3.10 Although the use of the IASB's proposals is not directly related to the Accounting Directive 2013/34/EU, EU Members States may still use the IASB's proposals as a point of reference for their local accounting requirements (as some already do for the *IFRS for SMEs Standard*).

3.11 If EU Member States consider the IASB's proposals as a point of reference or make changes to their local GAAP based on the IASB's proposals, these EU Member States will always have to assess the extent the IASB's proposals are compatible with the EU Accounting Directive.

3.12 Nonetheless, it is worth noting that when making the direct comparison between the Accounting Directive 2013/34/EU and the IASB's draft Standard, EU Members States should have in mind that:

a) there are several recognition and measurement differences between these two requirements. For example, under the Accounting Directive 2013/34/EU, goodwill is amortised while under IFRS Standards, goodwill is subject to an annual impairment test. In such situations, any comparison in terms of disclosures will be difficult or even impossible as they are simply incompatible.

b) there are (minimum) disclosures requirements within the Accounting Directive 2013/34/EU. The Directive has introduced a harmonisation regime for small undertakings. Harmonisation will be achieved by way of a reduction in EU Member State options to add any further disclosure requirements that are needed for a true and fair view or to meet user needs in their national context. Member States will have the option to require medium-sized and large companies to increase disclosures for certain financial statement items. There is no such option in respect of small undertakings[†].

3.13 Thus, direct comparison between Accounting Directive 2013/34/EU (including local GAAP) and the IASB's draft Standard in terms of disclosures is complex.

Interaction with other EU legislation

3.14 PIE is a European concept defined by European legislation. More specifically, defined by Article 2 of the Accounting Directive 2013/34/EU which states:

'public-interest entities' means undertakings within the scope of Article 1 which are:

*a) governed by the law of a Member State and **whose transferable securities are admitted to trading on a regulated market** of any Member State within the meaning of point (14) of Article 4(1) of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments (1);*

*b) **credit institutions** as defined in point (1) of Article 4 of Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions, other than those referred to in Article 2 of that Directive;*

*c) **insurance undertakings** within the meaning of Article 2(1) of Council Directive 91/674/EEC of 19 December 1991 on the annual accounts of insurance undertakings; or*

*d) **designated by the Member States as public-interest entities**, for instance, undertakings that are of significant public relevance because of the nature of their business, their size or the number of their employees.*

[†] Nevertheless, EU Member States have the option to require IFRS for separate or individual Financial Statements according to Regulation (EC) No 1606/2002 of the European Parliament

3.15 Additionally, in accordance with the Accounting Directive 2013/34/EU, some of the references to PIEs are highlighted below:

a) **Additional disclosures for public-interest entities**: Public-interest entities have to provide additional disclosures (*Articles 17 and 18)*.

b) **Exemptions from consolidation**: Small groups shall be exempt from the obligation to draw up consolidated financial statements and a consolidated management report, except where any affiliated undertaking is a public-interest entity (*Article 23*). Member States may also exempt medium-sized groups from the obligation to draw up consolidated financial statements and a consolidated management report, except where any affiliated undertaking is a public-interest entity *(Article 23).*

c) **General requirement**: Member States shall ensure that the financial statements of PIEs, medium-sized and large undertakings are audited by one or more statutory auditors or audit firms approved by the EU Member States to carry out statutory audits on the basis of Directive 2006/43/EC (*Article 34*).

3.16 According to a study made by Accountancy Europe in 2017, there is a wide diversity of definitions of PIEs applicable across European countries. Some countries have implemented the minimum EU requirements, but others have kept or included additional entities to their national PIE definition (which is possible under article 2(1)(d) of the Accounting Directive 2013/34/EU).

3.17 The IASB's notion of **public accountability** is different from the notion of PIEs included the Accounting Directive. The ED states that an entity has public accountability if either:

a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or

b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this criterion).

3.18 An entity may hold assets in a fiduciary capacity for a broad group of outsiders because the entity holds and manages financial resources entrusted to it by clients, customers or members not involved in the management of the entity. However, doing so for reasons that are incidental to an entity's primary business does not make the entity publicly accountable. For example, such a situation may arise for travel or real estate agents; schools; charitable organisations; co-operative enterprises requiring a nominal membership deposit; and sellers (such as utility companies) that receive payment before the delivery of goods or services.

3.19 As noted in BC22 of the 2013 ED *Proposed amendments to the IFRS for SMEs*, the term 'fiduciary capacity' was unclear for some of the respondents to the request for information as it was a term with different meanings across jurisdictions. However, at the time, the IASB conducted outreach activities and determined that the use of this term did not appear to create significant uncertainty or diversity in practice. Also, respondents generally could not provide any workable suggestions of another term or suggestions for guidance. Therefore, in 2015, the IASB only made minor clarifications to its definition.

3.20 More details on the IASB's notion of public accountability can be found at the IASB's website (IASC Foundation: Training Material for the IFRS for SMEs®). This supporting material for the *IFRS for SMEs* Standard addresses questions such as whether entities publicly traded in non-regulated markets (e.g., growth-share markets and over-the-counter markets) meet the definition of having public accountability. According to this document, a *"public market is not restricted to recognised and/or regulated stock exchanges. It includes all markets that bring together entities that seek capital and investors who are not involved in managing the entity. For a market to be public it must be accessible by a broad group of outsiders"*.

3.21 In summary, although the IASB's concept of subsidiaries 'without public accountability" is different from the European concept of PIE (e.g., no size criteria), the EFRAG Secretariat highlights that entities applying the IASB's proposals in the EU would be mainly under the scope of Article 5 of Regulation (EC) No. 1606/2002. The same applies for those that apply IAS 27 in the EU.

3.22 Nonetheless, it is worth noting that under the same Article 5, an EU Member State can restrict the use of IFRS to PIEs (please see the situation of Greece, Croatia, Romania and Slovakia in Appendix 1). The subsidiaries located in those jurisdictions and that prepare financial statements under IFRS would have to carefully analyse whether they would still be eligible to provide reduced disclosures under the IASB's proposed scope (particularly those that are PIEs due to the nature of their business, their size or the number of their employees).

APPENDIX 1: OVERVIEW OF THE USE OF OPTIONS IN THE IAS REGULATION – REPLACED BY APPENDIX A OF THIS DOCUMENT (BRIEFING ISSUED IN JUNE 2024)

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