IFRS
Accounting

Subsidiaries without Public Accountability: Disclosures

EFRAG Financial Reporting Board
November meeting

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Structure

1. Overview of the project
2. The future Subsidiaries Standard
3. How the Standard will be kept up-to-date
4. Effects
5. Interaction with the future Primary Financial Statements Standard

Overview of the project

Key facts about the future Subsidiary Standard

- Voluntary IFRS Accounting Standard
- Simplified preparation and audit of financial statements for eligible subsidiaries while maintaining the usefulness for their users
- Reduced disclosure requirements

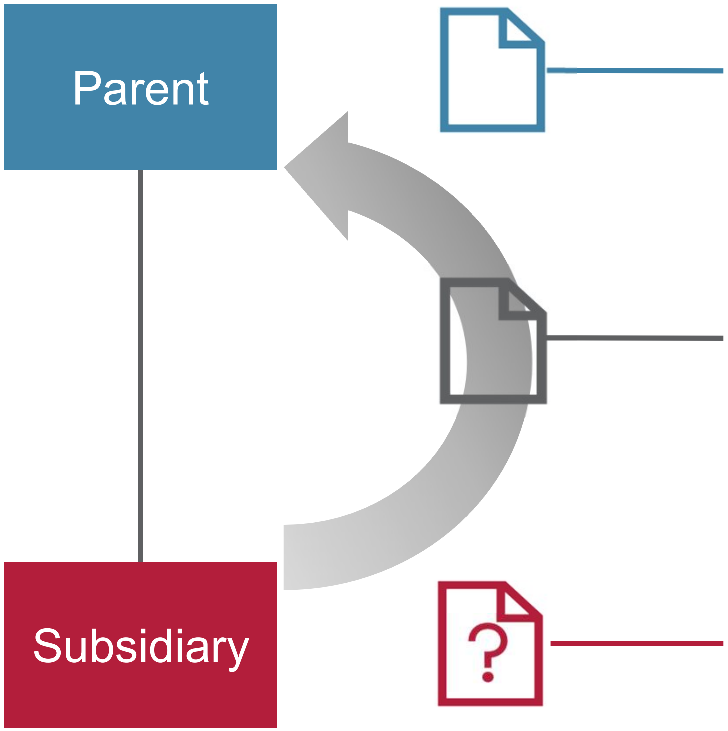
Project timeline

2015 Agenda Consultation

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

1 January 2027 Effective date, Early application permitted

Why the IASB undertook the project—the problem



Parent prepares consolidated financial statements
applying IFRS Accounting Standards

Subsidiary submits **consolidation pack**
applying IFRS Accounting Standards

Subsidiary's financial statements

Apply **IFRS Accounting Standards**? BUT disclosures may be disproportionate for these subsidiaries	Apply **local GAAP** or the ***IFRS for SMEs*** Accounting Standard? BUT requires additional accounting records

IFRS Accounting

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*)

The future Subsidiary Standard

Who can apply the Subsidiary 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

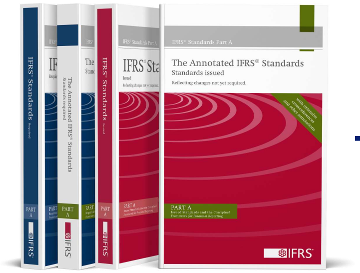
UP — Ultimate parent does **not prepare consolidated FS**

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

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

Eligible? ✓

How the IASB develop reduced disclosure requirements



The IASB applies the ***principles for reducing disclosure requirements***[1] (see slide 12)

Disclosure requirements in IFRS Accounting Standards

Disclosure requirements in *Subsidiaries without Public Accountability: Disclosures*

[1] 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 Subsidiary 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 Subsidiary Standard, sub-heading **IAS 2 *Inventories*** 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

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.

How the Standard will be kept up-to-date

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

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Apply the Principles for reducing the disclosure requirements and assess cost–benefit for eligible subsidiaries

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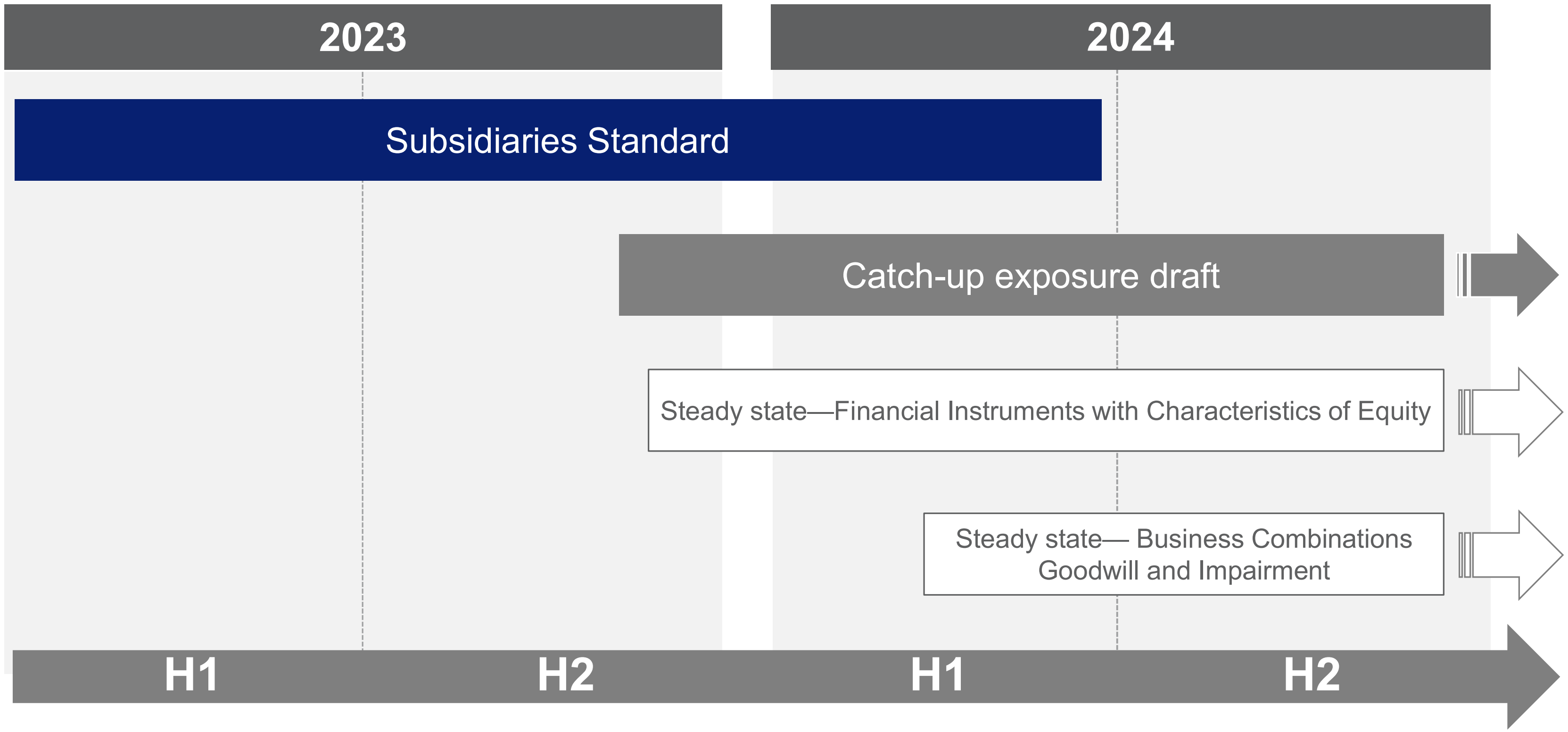
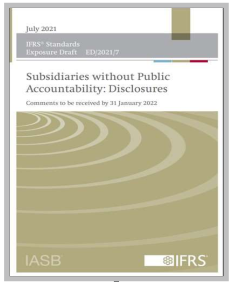
Obtain feedback and issue the new or amended IFRS Accounting Standard, accompanied by the amendments to this Standard

IASB workstreams related to the Subsidiary Standard[1]



1 – As at 31 October 2023

‘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

Steady state

Exposure drafts:

- **Financial Instruments with Characteristics of Equity**

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- **Business Combinations Goodwill and Impairment**

propose amendments to the future Standard

Main proposals

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Reduced disclosure proposals amending the Subsidiary Standard

Amendments to other IFRS Accounting Standards (for example, IFRS 3, IFRS 7 etc)

Amendments to the new Standard *Subsidiaries without Public Accountability: Disclosures*

Effects of the Subsidiary Standard

Effects of the Standard

The effects of the Standard will differ from entity to entity

Eligible entities determine whether to apply the Standard

Global adoption of the Standard will realise its full benefit

Benefits of applying the Subsidiary Standard

- **Reduced costs of preparing and auditing 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

Interaction with Primary Financial Statements Standard (PFS)

Interaction between PFS Standard and Subsidiaries Standard

PFS will	Add new disclosure requirements	Retain disclosure requirements from IAS 1	Relocate disclosure requirements
Subs reflects these changes	Required in IFRS 19 Catch-up ED	Follow the proposals in the Exposure Draft for subsidiaries	

Can I apply Subsidiaries before PFS?

Yes

An appendix to the Subsidiaries Standard will set out the disclosure requirements to be applied if the Standard is applied before PFS.


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