EFRAG Financial reporting

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Key messages on Updating the Subsidiaries without Public Accountability: Disclosures

Issues Paper

Objective

1 The purpose of this issue paper is to discuss the key messages on the IASB project *Updating the Subsidiaries without Public Accountability: Disclosures* to be considered for the EFRAG draft comment letter ('EFRAG DCL') on the project.

Background information

2 On 9 May 2024, the IASB published its new standard IFRS 19 *Subsidiaries without Public Accountability: Disclosures* ('the Subsidiaries Standard'). The application of this new standard will be voluntary for eligible subsidiaries and will permit the use of the recognition, measurement and presentation requirements of IFRS Accounting Standards with reduced disclosure requirements. The IASB developed the Subsidiaries Standard by considering issued IFRS Accounting Standards as at 28 February 2021.

3 In September 2023, the IASB decided that all changes made by new or amended standards proposed or issued after 28 February 2021 will be dealt with in a separate project: *Updating the Subsidiaries without Public Accountability: Disclosures* (the 'Catch-up' Exposure Draft). The Catch-up Exposure Draft is expected to be issued at the end of July 2024.

4 The IASB's approach to maintain the Subsidiaries Standard is to require potential changes made on two levels:

(a) Detailed level – the new or amended disclosure requirements will be considered against the principles for reducing disclosures laid out in paragraph BC34 of the *Basis for Conclusions* on the 2021 *Exposure Draft Subsidiaries without Public Accountability: Disclosures*. These principles include information about:

(i) short-term cash flows and obligations;

(ii) liquidity and solvency;

(iii) measurement uncertainties;

(iv) disaggregation of information presented in the financial statements;

(v) accounting policy choices;

(b) at a high level - by considering whether newly added or amended disclosure requirements would be proportional and allow to be reduced while meeting the needs of users of the financial statements of eligible subsidiaries.

5 The table below contains all the IASB projects where changes were made to disclosure requirements of existing IFRS Accounting Standards between 28 February 2021 and the publication of IFRS 19 (9 May 2024). These projects were considered and included in the Catch-up Exposure Draft.

Standard	Topic	IASB deliberations
IAS 7 and IFRS 7	Supplier Finance Arrangements	January 2024
IAS 12	International Tax Reform -Pillar Two Model Rules	January 2024
IAS 21	Lack of Exchangeability	January 2024
IFRS 9	Financial Instruments – Classification and Measurement	February 2024
IFRS 18	Presentation and Disclosure in Financial Statements	March 2024
IFRS XX	Rate-regulated Activities	March 2024

EFRAG FR TEG discussions on the project

6 On a timely basis, EFRAG FR TEG discussed the IASB tentative decisions made with respect to the topics included in paragraph 5 except for reduced disclosures for rate-regulated activities and provided its feedback. The discussions took place in February and April. The discussion related to the proposals for RRA was postponed to allow to receive upfront feedback from the RRA WG.

7 Appendix 1 to this issues paper provides a summary of the IASB's tentative decisions made on the project, the IASB rationale for these decisions and the EFRAG FR TEG's feedback on the proposed reduced disclosures.

Summary of key messages related to the topics discussed in February and April

8 Based on the feedback received by EFRAG FR TEG on the IASB tentative decisions on the Updating SwPA project, the key messages to be considered for the EFRAG draft comment letter on this project are:

(a) Express general support for the proposed reduced disclosure requirements considered as part of the Catch-up exposure draft. The support covers all standards/ amendments covered in the catch-up ED. The limited reductions proposed in the ED reflect the discussions related to the respective projects.

(b) Suggest the IASB to be consistent in its rationale and criteria for reducing disclosure requirements for IFRS 19 standard;

(c) Voluntary application of IFRS 19 – IFRS 19 is applied on a voluntary basis and as such eligible entities can elect whether to apply it or not. This alleviates the concerns expressed by some insurance companies that they can fall within the scope of IFRS 19.

(d) The timing for the finalisation of the amendments would be one point to address to the IASB. The publication of the amendments would be most helpful for the implementation process, if it is before major steps of the implementation started. Preparers wishing to apply IFRS 19 would very much welcome the opportunity to implement all of the amended requirements and not have to make further changes to processes and systems shortly after implementation of IFRS 19.

EFRAG Secretariat analysis related to RRA

9 As mentioned in the previous discussions, the EFRAG Secretariat is overall supportive of the proposed reduced amendments in the Catch-up exposure draft.

10 EFRAG Secretariat supports the IASB tentative decision not to develop reduced disclosures for the prospective RRA Standard at this stage of the project. In the Secretariat's view, the proposed disclosures for the prospective RRA standard are only tentative and might be changed before issuing the final standard next year.

11 At the RRAWG meeting in May 2024, some working group members raised several concerns with regards to the proposed disclosures for regulatory assets and regulatory liabilities. In particular, the following comments were made:

(a) the level of proposed disclosures was too high and at consolidation level it would be an issue to explain them in situations when the reporting entity had several regulatory agreements in different jurisdictions;

(b) some disclosures required significant efforts to prepare;

(c) more guidance was needed to distinguish between current and non-current regulatory assets and regulatory liabilities;

(d) it could be difficult to aggregate and disaggregate information for a company applying different tariffs;

(e) it was complicated to provide all the required new disclosures relating to direct (no direct) relationship concept in the notes; and

(f) it was considered useful to have mock-up examples on the proposed new disclosures especially when these disclosures are not quantitative.

12 Consequently, it is possible that some of the proposed disclosures for rate-regulated activities would be modified before the final standard is published in 2025.

13 Instead, the Catch-up exposure draft will include an appendix indicating how the proposed RRA disclosures could be reduced for the purposes of IFRS 19 standard. In this way, the IASB will consult with stakeholders and obtain feedback on the possible reductions of RRA disclosures.

Questions for EFRAG FR TEG

14 Does EFRAG FR TEG agree with the key messages included in paragraph 8 to be considered in the EFRAG draft comment letter on Updating SwPA exposure draft?

15 Does EFRAG FR TEG agree with the EFRAG Secretariat analysis included in paragraphs 9-12 of this issues paper?

16 Does EFRAG FR TEG have any further comments/suggestions on this project?

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Appendix 1: Summary of IASB tentative decisions on Updating the SwPA Standard and EFRAG FR TEG feedback

Paragraph reference	Texts of the requirements	IASB discussion and rational for the tentative decision	EFRAG FR TEG feedback
1) **Supplier Finance Arrangements** (issued May 2023, effective for annual reporting periods beginning on or after 1 January 2024)			
IAS 7.44F	An entity shall disclose information about its supplier finance arrangements (as described in paragraph 44G) that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk.	This is a disclosure objective and therefore should not be included in the Catch-up Exposure Draft.	Overall, EFRAG FR TEG members were in favour of the proposed disclosures. One EFRAG FR TEG member queried whether SFA disclosures were necessary for SwPA because typically legal entities enter such arrangements on a group level. However, other members were hesitant not to require as the programmes might be agreed on subsidiaries level as well. EFRAG FR TEG members provided no specific comments on paragraph 44F.

IAS 7.44G	Supplier finance arrangements are characterised by one or more finance providers offering to pay amounts an entity owes its suppliers and the entity agreeing to pay according to the terms and conditions of the arrangements at the same date as, or a date later than, suppliers are paid. These arrangements provide the entity with extended payment terms, or the entity's suppliers with early payment terms, compared to the related invoice payment due date. Supplier finance arrangements are often referred to as supply chain finance, payables finance or reverse factoring arrangements. Arrangements that are solely credit enhancements for the entity (for example, financial guarantees including letters of credit used as guarantees) or instruments used by the entity to settle directly with a supplier the amounts owed (for example, credit cards) are not supplier finance arrangements.	This explains what a supplier finance arrangement is. Although it is a disclosure guidance it is part of the disclosure requirements section. Therefore, this paragraph should be included in the Catch-up Exposure Draft.	EFRAG FR TEG members provided no specific comments.
IAS 7.44H	To meet the objectives in paragraph 44F, an entity shall disclose in aggregate for its supplier finance arrangements: a. the terms and conditions of the arrangements (for example, extended payment terms and security or guarantees provided). However, an entity shall disclose separately the terms and conditions of arrangements that have dissimilar terms and conditions. b. as at the beginning and end of the reporting period:	The IASB considered how to reduce the disclosure requirements under paragraph 44H which were already proportional. In the IASB's view the required supplier finance arrangement disclosures were data points which complimented each other and came as a package. Therefore, it was not sensible to reduce this set of requirements.	EFRAG FR TEG members provided no specific comments.

	i. the carrying amounts, and associated line items presented in the entity's statement of financial position, of the financial liabilities that are part of a supplier finance arrangement. ii. the carrying amounts, and associated line items, of the financial liabilities disclosed under (i) for which suppliers have already received payment from the finance providers. iii. the range of payment due dates (for example, 30–40 days after the invoice date) for both the financial liabilities disclosed under (i) and comparable trade payables that are not part of a supplier finance arrangement. Comparable trade payables are, for example, trade payables of the entity within the same line of business or jurisdiction as the financial liabilities disclosed under (i). If ranges of payment due dates are wide, an entity shall disclose explanatory information about those ranges or disclose additional ranges (for example, stratified ranges). c. the type and effect of non-cash changes in the carrying amounts of the financial liabilities disclosed under (b)(i). Examples of non-cash changes include the effect of business combinations, exchange differences or other transactions that do not require the use of cash or cash equivalents (see paragraph 43)	The IASB tentatively decided to keep this paragraph unchanged in the Catch-up Exposure Draft.	

IFRS 7.B11F	Under *Application Guidance >> Nature and extent of risks arising from financial instruments (paragraphs 31–42) >> Quantitative liquidity risk disclosures (paragraphs 34(a) and 39(a) and (b))* Other factors that an entity might consider in providing the disclosure required in paragraph 39(c) include, but are not limited to, whether the entity: … i. has accessed, or has access to, facilities under supplier finance arrangements (as described in paragraph 44G of IAS 7) that provide the entity with extended payment terms or the entity's suppliers with early payment terms.	This is not a disclosure requirement but guidance. The guidance in paragraph B11F, from subparagraphs (a)–(i), supports the application of paragraph 39(c) which is part of liquidity risk disclosure which will also be in the new Standard. The amendments do not need to be included in the Catch-up Exposure Draft because eligible subsidiaries will be able to apply the amended guidance in IFRS 7.	EFRAG FR TEG members provided no specific comments.
IFRS 7.IG18A	Under *Guidance on implementing IFRS 7 Financial Instruments: Disclosures >> Nature and extent of risks arising from financial instruments (paragraphs 31–42 and B6–B28) >> Quantitative disclosures (paragraphs 34–42 and B7–B28)* Similar principles apply to identifying concentrations of other risks, including liquidity risk and market risk. For example: a. concentrations of liquidity risk may arise from: I. the repayment terms of financial liabilities; II. sources of borrowing facilities;	Implementation guidance (Appendix B of the Bound Volume) accompanies, but is not part of, a standard. Therefore, this does not need to be included in the Catch-up Exposure Draft.	EFRAG FR TEG members provided no specific comments.

	III. reliance on a particular market in which to realise liquid assets; or IV. supplier finance arrangements (as described in paragraph 44G of IAS 7) resulting in the entity concentrating with finance providers a portion of its financial liabilities originally owed to suppliers. b. concentrations of foreign exchange risk may arise if an entity has a significant net open position in a single foreign currency, or aggregate net open positions in several currencies that tend to move together.		
2) **International Tax Reform - Pillar Two Model Rules** (issued May 2023, effective for annual reporting periods beginning on or after 1 January 2023)			
IAS 12.88A	An entity shall disclose that it has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes (see paragraph 4A).	The paragraph provides information about the entity's accounting policy choices - it should therefore be in the Catch-up Exposure Draft.	Overall, EFRAG FR TEG members were in favour of the proposed disclosures. EFRAG FR TEG members provided no specific comments on paragraph 88A.
IAS 12.88B	An entity shall disclose separately its current tax expense (income) related to Pillar Two income taxes.	The paragraph satisfies the principle of disaggregation - it should be in the Catch-up Exposure Draft.	EFRAG FR TEG members provided no specific comments.
IAS 12.88C	In periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect, an entity shall disclose known or reasonably estimable information that helps users of financial statements understand the entity's exposure to Pillar Two income taxes arising from that legislation.	Information about measurement uncertainties is important to users of eligible subsidiaries' financial statements. It should be in the Catch-up Exposure Draft.	One EFRAG FR TEG member questioned whether disclosures under paragraph 88C and 88D of Amendments to IAS 12 were necessary to disclose for SwPA. It was

			responded that such disclosures were applicable for small EU jurisdictions such as Estonia and Latvia and might have some relevance on an international level.
IAS 12.88D	To meet the disclosure objective in paragraph 88C, an entity shall disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. This information does not have to reflect all the specific requirements of the Pillar Two legislation and can be provided in the form of an indicative range. To the extent information is not known or reasonably estimable, an entity shall instead disclose a statement to that effect and disclose information about the entity's progress in assessing its exposure. **Examples illustrating paragraphs 88C–88D** Examples of information an entity could disclose to meet the objective and requirements in paragraphs 88C–88D include: (a) qualitative information such as information about how an entity is affected by Pillar Two legislation and the main jurisdictions in which exposures to Pillar Two income taxes might exist; and (b) quantitative information such as: (i) an indication of the proportion of an entity's profits that might be subject to Pillar Two income taxes and the average effective tax rate applicable to those profits; or (ii) an indication of how the entity's average effective tax rate would have changed if Pillar Two legislation had been in effect.	This paragraph includes disclosure requirements which together with paragraph 88C provide clear picture about the required disclosures around International Tax Reform – Pillar 2. Therefore, it should be included in the Catch-up Exposure Draft together with the illustrative examples.	EFRAG FR TEG members provided no specific comments.

3) **Lack of Exchangeability** (Amendments to IAS 21) (effective for annual reporting periods beginning on or after 1 January 2025)			
IAS 21.57A	When an entity estimates a spot exchange rate because a currency is not exchangeable into another currency (see paragraph 19A), the entity shall disclose information that enables users of its financial statements to understand how the currency not being exchangeable into the other currency affects, or is expected to affect, the entity's financial performance, financial position and cash flows. To achieve this objective, an entity shall disclose information about: a. the nature and financial effects of the currency not being exchangeable into the other currency; b. the spot exchange rate(s) used; c. the estimation process; and d. the risks to which the entity is exposed because of the currency not being exchangeable into the other currency.	The introductory sentence is a disclosure objective. However, subparagraphs (a) to (d) are disclosure requirements which give information to users about liquidity and are therefore important to include in the Catch-up Exposure Draft. The IASB agreed to rephrase the introductory paragraph to read: "When an entity estimates a spot exchange rate because a currency is not exchangeable into another currency (see paragraph 19A of IAS 12), the entity shall disclose information about: …"	Overall, EFRAG FR TEG members were in favour of the proposed disclosures. EFRAG FR TEG members provided no specific comments on paragraph 57A.
IAS 21.57B	Paragraphs A18–A20 specify how an entity applies paragraph 57A.		EFRAG FR TEG members provided no specific comments.
IAS 21.A18	**Disclosure when a currency is not exchangeable** An entity shall consider how much detail is necessary to satisfy the disclosure objective in paragraph 57A. An entity shall disclose the	This is a general guidance paragraph and does not add explicit requirements. The IASB agreed not to include it in the Catch-up Exposure Draft.	EFRAG FR TEG members provided no specific comments.

	information specified in paragraphs A19–A20 and any additional information necessary to meet the disclosure objective in paragraph 57A.		
IAS 21.A19	In applying paragraph 57A, an entity shall disclose: a. the currency and a description of the restrictions that result in that currency not being exchangeable into the other currency; b. a description of affected transactions; c. the carrying amount of affected assets and liabilities; d. the spot exchange rates used and whether those rates are: i. observable exchange rates without adjustment (see paragraphs A12–A16); or ii. spot exchange rates estimated using another estimation technique (see paragraph A17); e. a description of any estimation technique the entity has used, and qualitative and quantitative information about the inputs and assumptions used in that estimation technique; and f. qualitative information about each type of risk to which the entity is exposed because the currency is not exchangeable into the other currency, and the nature and carrying amount of assets and liabilities exposed to each type of risk.	The disclosure requirements in sub-paragraphs (a) - (d) give information about measurement uncertainties, and sub-paragraph (e) about accounting policy choices. Sub-paragraph (f) does not satisfy any of the principles for reduced disclosures, however, it is important to assess the impact of the lack of exchangeability for the subsidiary. Therefore, all sub-paragraphs should be included in the Catch-up Exposure Draft, with internal references updated.	EFRAG FR TEG members provided no specific comments.

IAS 21.A20	When a foreign operation’s functional currency is not exchangeable into the presentation currency or, if applicable, the presentation currency is not exchangeable into a foreign operation’s functional currency, an entity shall also disclose: a. the name of the foreign operation; whether the foreign operation is a subsidiary, joint operation, joint venture, associate or branch; and its principal place of business; b. summarised financial information about the foreign operation; and c. the nature and terms of any contractual arrangements that could require the entity to provide financial support to the foreign operation, including events or circumstances that could expose the entity to a loss.	The information in these disclosure requirements should be readily available to eligible subsidiaries because it would also be necessary for other reporting. Therefore, all these disclosure requirements should be incorporated into the Catch-up Exposure Draft.	One EFRAG FR TEG member questioned why disclosures under paragraph A20 of IAS 21 were considered in the SwPA standard. Such disclosures did not meet the principles for reducing disclosures applied by the IASB. It was suggested that the IASB should better explain their rationale for selecting disclosure requirements.
IFRS 1.31C	Amendments are marked-up If an entity elects to measure assets and liabilities at fair value and to use that fair value as the deemed cost in its opening IFRS statement of financial position because of severe hyperinflation (see paragraphs D26–D30), the entity’s first IFRS financial statements shall disclose an explanation of how, and why, the entity had, and then ceased to have, a functional currency that is subject to severe hyperinflation. ~~has both of the following characteristics:~~	Paragraph 31C of IFRS 1 was amended by the Amendments to IAS 21. Para. 31C of IFRS 1 is not expected to be included in the Subsidiaries Standard and therefore changes to it need not be included in the Catch-up Exposure Draft.	EFRAG FR TEG members provided no specific comments.

	a. ~~a reliable general price index is not available to all entities with transactions and balances in the currency.~~ b. ~~exchangeability between the currency and a relatively stable foreign currency does not exist.~~		
4) **Financial Instruments - classification and measurement (issued May 2024)**			
	The IASB tentatively decided: • to not include the prospective amendments to IFRS 7 relating to equity instruments designated at fair value through other comprehensive income; and • to include the prospective amendments to IFRS 7 relating to changes in contractual cash flows. The IASB tentative decisions related to reducing disclosures from Amendments to the Classification and Measurement of Financial Instruments were discussed with EFRAG FR TEG at its meeting on 14 March 2024 (agenda paper 03-02).		EFRAG FR TEG members agreed with the IASB tentative decisions concerning the reduced disclosures for SwPA. Some members from the insurance sector noted, in addition to previous discussions, that some insurance entities, contrary to the existing impression, could still be impacted by the disclosure requirements for SwPA as they might not meet the IASB's definition of public accountability.

5) IFRS 18 *Presentation and Disclosure in Financial Statements* (issued April 2024, effective for annual reporting periods beginning on or after 1 January 2027)			
	The IASB tentative decisions related to reducing disclosures from IFRS 18 and the IASB rationale are discussed in more details in agenda paper 08-01 from the EFRAG FR TEG meeting on 12 April 2024.		EFRAG FR TEG members did not have any comments on the IASB tentative decisions related to the proposed reduced disclosures for IFRS 18. Therefore, they agreed on the IASB approach to updating the Subsidiaries Standard with the reduced disclosures from IFRS 18.
6) Rate-regulated Activities (prospective RRA standard is expected to be published in 2025)			
	The IASB tentatively decided: (a) not to develop reduced disclosures for the prospective RRA Standard now; and (b) to include a question seeking stakeholders' views on the decision not to develop reduced disclosures in the 'Catch-up' exposure draft the IASB plans to publish after it issues the prospective Subsidiaries Standard.	The IASB members unanimously agreed, at this stage of the project, not to develop reduced disclosures for the prospective IFRS 19 Standard based on two main arguments: (a) The prospective RRA Standard would introduce a new accounting model for rate-regulated activities. Important part of this model is built on the full set of disclosure requirements to be fulfilled by regulated entities. Therefore, reducing some of the disclosures required by the	So far, EFRAG Secretariat discussed the IASB tentative decisions on RRA project with the EFRAG RRAWG on 16 May 2024. The working group did not have any comments on the IASB's approach not to develop reduced disclosures for the prospective RRA Standard at this stage.

		prospective RRA Standard would not make it possible for users of financial statements to understand and interpret the full 'picture' about regulatory assets and regulatory liabilities; (b) Developing reduced RRA disclosures for the prospective IFRS 19 Standard would mean that IFRS 19 would require certain disclosures for rate-regulated activities before even the prospective RRA Standard is published. The Catch-up ED will include a question to stakeholders on the IASB's tentative decision not to reduce disclosure for RRA at this stage of the project. Additionally, it will include an appendix to the ED indicating what disclosures could be reduced from the proposed RRA disclosure requirements	