EFRAG Secretariat: Kathrin Schöne (PD),
Vasileios Dionelis,
Ioana Kiss

Updating the Subsidiaries without Public Accountability: Disclosures

Issues Paper

Objective

1 The purpose of this issues paper is to provide an update and discuss with EFRAG FR TEG the latest IASB tentative decisions on its project *Updating the Subsidiaries without Public Accountability: Disclosures* (the 'Catch-up' Exposure Draft).

2 In addition, the IASB agenda paper AP32 *Reviewing disclosure requirements* can be consulted for background information only.

Background information

3 In Q2 2024, the IASB is expected to publish its new standard *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.

4 In September 2023, the IASB discussed a plan how to update the forthcoming Subsidiaries Standard for all new or amended standards proposed or issued after the cut-off date 28 February 2021. The IASB decided that all the changes to the Subsidiaries Standard will be dealt with in its project *Updating the Subsidiaries without Public Accountability: Disclosures* (the 'Catch-up' Exposure Draft). The Catch-up Exposure Draft will be issued as soon as possible after the Subsidiaries Standard is published.

5 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.

6 In November 2023, the IASB considered a project plan for the Catch-up Exposure Draft. The project plan detailed the new or amended standards proposed or issued after 28 February 2021 which will be dealt with in the Catch-up Exposure Draft based on their timing. The following table contains the proposed working plan:

Standard	Topic	Planned date of technical discussion
IAS 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 XX	Presentation and disclosure in financial statements	February 2024
IFRS XX	Rate regulated activities	March 2024 – to be discussed by the rate regulated activities team
IFRS 9	Financial instruments classification and measurement	Q1 2024 – to be discussed by the financial instruments team

Source: The IASB

IASB January discussion and tentative decisions

7 In January 2024, the IASB considered several topics and tentatively decided to propose including in the Catch-up Exposure Draft disclosure requirements from:

(a) paragraphs 44G - 44H of IAS 7 *Statement of Cash Flows*, relating to *Supplier Finance Arrangements* (Amendments to IAS 7 and IFRS 7);

(b) paragraphs 88A - 88D of IAS 12 *Income Taxes*, relating to *International Tax Reform - Pillar Two Model Rules* (Amendments to IAS 12); and

(c) paragraph 57B of IAS 21 *The Effects of Changes in Foreign Exchange Rates* and paragraphs A19 - A20 of Appendix A to IAS 21, relating to *Lack of Exchangeability* (Amendments to IAS 21).

8 With respect to *Supplier Finance Arrangements*, the IASB tentatively decided to keep all the disclosure requirements as originally proposed in IAS 7. These disclosures work as a set of data points that would enable users of financial statements to assess the impact of such arrangements on the entity's financial position and financial performance. Conversely, paragraph 44F of IAS 7 is not included in the Catch-up Exposure Draft because it includes a disclosure objective, following the IASB decision that the Subsidiaries Standard should not include disclosure objectives and guidance.

9 On Amendments to IAS 12, the IASB tentatively decided to include all the disclosure requirements in the IAS 12 amendments relating to Pilar Two model rules in the Catch-up Exposure Draft because:

(a) paragraphs 88A – 88C of IAS 12 satisfy the principles for reducing disclosures; and

(b) paragraph 88D of IAS 12 includes disclosure requirements which together with paragraph 88C and supporting illustrative examples provide clear picture about the required disclosures around International Tax Reform – Pillar 2.

10 For *Lack of exchangeability* (amendments to IAS 21), the IASB tentatively decided that:

(a) The requirements in paragraph 57A described as satisfying the disclosure objective give information to users about liquidity and are therefore important to include in the Catch-up Exposure Draft.

(b) The disclosure requirements in paragraph A19 of Appendix A to IAS 12 - sub-paragraphs A19(a) - A19(d) give information about measurement uncertainties, and sub-paragraph A19(e) about accounting policy choices. While sub-paragraph A19(f) does not satisfy any of the principles for reduced disclosures, it is important to assess the impact of the lack of exchangeability for the subsidiary. Therefore, the IASB tentatively decided to include all sub-paragraphs of paragraph A19 of Appendix A to IAS 12 in the Catch-up Exposure Draft.

(c) The disclosure requirements in paragraph A20 of Appendix A to IAS 12 - should be readily available to eligible subsidiaries because it would also be necessary for other reporting. Therefore, the paragraph should be included in the Catch-up Exposure Draft.

11 The IASB tentatively decided to consider the *Non-current Liabilities with Covenants* (Amendments to IAS 1 *Presentation of Financial Statements*) at a future meeting together with addressing all the disclosure requirements in the Primary Financial Statements Standard.

12 Appendix 1 provides a summary of the discussed topics and the IASB rational for taking the tentative decisions.

EFRAG FR TEG December discussion on the topic

13 In December 2023, the EFRAG Secretariat discussed the approach regarding the Catch-up Exposure Draft with EFRAG FR TEG. The EFRAG Secretariat had highlighted that implementation guidance was necessary for the companies that adopt the Standard because the subsidiaries applying the new standard might have the difficulty to understand for which IFRS Standard they will have to provide full disclosure and until when.

14 EFRAG FR TEG made the following comments:

(a) it was crucial for the Catch-up Exposure Draft to be published as soon as possible, as it would facilitate system preparation for entities intending to apply the new standard;

(b) raised the issue that the inclusion of the Rate-regulated Activities project in the Catch-up Exposure Draft might be challenging for the timeline of the project;

(c) concerns were expressed about the fact that in the case of early adoption, several disclosure requirements would have to be applied without reduction, which would be burdensome for entities.

EFRAG Secretariat analysis

15 EFRAG Secretariat agrees with the IASB tentative decisions on the three topics (*Supplier Finance Arrangements, International Tax Reform - Pillar Two Model Rules and Lack of Exchangeability*) discussed at the IASB January 2024 meeting. EFRAG Secretariat welcomes the inclusion of the description of supplier finance arrangements in the Catch-up Exposure Draft because it is a newly introduced amendment. As such, the description is beneficial although it is a disclosure guidance.

16 EFRAG Secretariat considers that the proposed reduction in disclosure requirements as reflected in Appendix 1 meet both the principles for reduction in disclosures and the proportionality notion that would provide users of financial statements with the necessary information for their analysis.

Questions for EFRAG FR TEG

17 Does EFRAG FR TEG agree with the IASB tentative decisions on the three topics (*Supplier Finance Arrangements, International Tax Reform - Pillar Two Model Rules and Lack of Exchangeability*) included in Appendix 1 of this issues paper?

18 Does EFRAG FR TEG have any further questions/comments on this issues paper?

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Appendix 1: Summary of IASB January technical discussion and tentative decisions taken on Updating the SwPA Standard

Paragraph reference	Texts of the requirements	IASB discussion and rational for the tentative decision
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.
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.
IAS 7.44H	To meet the objectives in paragraph 44F, an entity shall disclose in aggregate for its supplier finance arrangements:	The IASB considered how to reduce the disclosure requirements under paragraph

	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: 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)	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. 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))*	This is not a disclosure requirement but guidance. The guidance in paragraph B11F, from subparagraphs (a)–(i), supports the application of

	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. <u>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.</u>	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.
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; 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.	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.

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.
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.
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.
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.	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.

	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.	
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: …"
IAS 21.57B	Paragraphs A18–A20 specify how an entity applies paragraph 57A.	
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 information specified in paragraphs A19–A20 and any additional information necessary to meet the disclosure objective in paragraph 57A.	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.
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	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.

	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.	
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.
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:~~ 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.~~	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.