Think Ahead ACCA

IASB/ ED/2024/5 Amendments to IFRS 19 Subsidiaries without Public Accountability: Disclosures

Exposure Draft issued by the IASB in July 2024

Comments from ACCA
22 October 2024

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GENERAL COMMENTS

ACCA welcomes the opportunity to provide views in response to the IASB's exposure draft (ED) for *Amendments to IFRS 19 Subsidiaries without Public Accountability: Disclosures*. Our response has been developed with the assistance of ACCA's Global Forum for Corporate Reporting.

Our general comments on the proposed amendments are as follows:

We are supportive of using a consistent approach to reduce disclosure requirements in IFRS 19 and to ensure these requirements remain proportionate for eligible subsidiaries, are clear and sufficient to meet the needs of users of eligible subsidiaries' financial statements.

Nevertheless, a departure from this approach may sometimes be necessary. In this situation, removing the disclosure objective relating to non-current liabilities with covenants may hinder preparers' understanding of the specific information required. We agree with removing the disclosure requirements relating to management-defined performance measures (MPM) in IFRS 19. Furthermore, we suggest the IASB reconsider the granularity of certain reconciling items when eligible subsidiaries use MPM and are required to provide the relevant information in accordance with IFRS 18. Details are included in our response to question 1.

We are supportive of reducing the disclosure requirements relating to supplier finance arrangements, pillar two model rules and lack of exchangeability. Details are included in our response to questions 2 – 4.

The disclosure requirements added to IFRS 19 due to *Amendments to the Classification and Measurement of Financial Instruments* issued in May 2024 may be disproportionate to eligible subsidiaries and the scope requires further clarification. Details are included in our response to question 5.

We believe stakeholders need to familiarise themselves with the new disclosure requirements in the prospective RARL Standard before evaluating the implications of reduced disclosures as reducing disclosure requirements is seldom a straightforward exercise. Further detail can be found in our response to question 6.

Lastly, the IASB should also evaluate, at a suitable time in the future, the granularity of disclosures and whether the disclosure requirements in IFRS 19 can be further reduced to remove disclosures that go beyond the information needs of users of those subsidiaries' financial statements. For that, we suggest the IASB continue monitoring the market's reception of IFRS 19 through the number of eligible subsidiaries that adopt this standard. We would like to reiterate a comment in our January 2022 letter to consider extending the scope of IFRS 19 to other entities without public accountability in helping to reduce the effort of gathering, publishing and auditing the full disclosures required by the IFRS Accounting Standards[1]. This may encourage further adoption of IFRS Accounting Standards where this is an option.

[1] This refers to ACCA's response to question 2 in the IASB's ED: *Subsidiaries without public accountability: disclosures*.

RESPONSES TO SPECIFIC QUESTIONS RAISED

QUESTION 1 – PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS (PROPOSED AMENDMENTS TO PARAGRAPHS 137, 142–159 AND 163 OF IFRS 19, PARAGRAPH A3 IN APPENDIX A OF IFRS 19 AND PARAGRAPH B8 OF APPENDIX B OF IFRS 19)

The IASB is proposing to retain the disclosure requirements in IFRS 19 relating to IFRS 18. The only substantial change proposed is to remove from IFRS 19 the requirements relating to management-defined performance measures. Instead, an eligible subsidiary that uses management-defined performance measures as defined in IFRS 18 would be required to apply the related disclosure requirements in IFRS 18. The IASB is also proposing to remove the disclosure objective in paragraph 137 of IFRS 19 relating to non-current liabilities with covenants.

Paragraphs BC6–BC13 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for this proposal.

Do you agree with the proposal to remove from IFRS 19 the requirements for management-defined performance measures and to require an eligible subsidiary to disclose information about these measures if it uses them? If you disagree with this proposal, please explain your reasons.

Are there any other disclosure requirements in IFRS 18 that, in your view, are not applicable to eligible subsidiaries and should therefore be removed from IFRS 19? If so, please specify the disclosure requirements and explain your reasons.

Do you agree that following the removal of the disclosure objective in paragraph 137 of IFRS 19, the remaining requirements relating to non-current liabilities with covenants are sufficient and clear?

ACCA response

Removing requirements relating to management-defined performance measures (MPM)
We agree with removing the disclosure requirements for MPM in IFRS 19. The information a subsidiary provides to its parent to prepare consolidated financial statements does not meet the definition of a management-defined performance measure in IFRS 18. In addition, we believe eligible subsidiaries are less likely to use MPM in public communication outside the subsidiary's financial statements.

Meanwhile, we note the IASB do not intend to reduce the relevant disclosure requirements for MPM at this stage [paragraph BC13 of this ED]. Reproducing the relevant disclosure requirements from IFRS 18 would be inconsistent with the objective of IFRS 19.

If an eligible subsidiary chooses to use MPM in its public communication in a way that meets the criteria in paragraph 117 of IFRS 18, it should be required to apply the related requirements in IFRS 18.

However, we suggest the IASB reconsider the requirements in paragraphs 123(d) and (e) of IFRS 18 to disclose the income tax effect and the effect on non-controlling interests for each item in the reconciliation between the MPM and the most directly comparable subtotal or total in the financial statements. This information may be more detailed than is necessary for users of financial statements of eligible subsidiaries that use MPM.

Further, we suggest retaining the subheading *'Management-defined performance measures'* above paragraph 142 and place the requirement proposed in paragraph 163 directly under this subheading, that is the requirement that states '*If an entity has management-defined performance measures […]*'. This is more intuitive and would be easier for eligible subsidiaries that use MPM to locate the relevant disclosure requirements in IFRS 18.

Removing the disclosure objective relating to non-current liability with covenants
We disagree with the amendment proposed for paragraph 137. In this situation, the disclosure objective is imperative to understanding the specific requirement for information in paragraph 137. The remainder of paragraph 137 requires disclosing information that would help users understand the uncertainties around specific liabilities that could become repayable within 12 months after the reporting period. If the disclosure objective is removed, the purpose of providing this information would be unclear to preparers (eligible subsidiaries).

As mentioned in paragraph BC2(a) of this ED, users of the financial statements of eligible subsidiaries are interested in information about short-term cash flows and about obligations. Therefore, we suggest maintaining the disclosure objective in paragraph 137, which is more helpful to preparers with it intact.

QUESTION 2 – SUPPLIER FINANCE ARRANGEMENTS (PROPOSED AMENDMENTS TO PARAGRAPHS 167–168 OF IFRS 19)

The IASB is proposing to retain the disclosure requirements in IFRS 19 relating to supplier finance arrangements, with some amendments.

The IASB proposes to delete the disclosure objective previously included in paragraph 167 of IFRS 19, consistent with its decision not to include disclosure objectives in IFRS 19. It also proposes:

a) to add a new paragraph, paragraph 167A, which would include the description of supplier finance arrangements from paragraph 44G of IAS 7; and
b) to amend paragraph 168 of IFRS 19 to remove the reference to the disclosure objective.

Paragraphs BC14–BC17 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for these proposals.

Do you agree that including explanatory text in paragraph 167A would be helpful to eligible subsidiaries that elect to apply IFRS 19? Please explain your reasons.

Are there any other disclosure requirements that should be removed from IFRS 19? Please explain your reasons.

ACCA response

We agree with including explanatory text in paragraph 167A that describe the general characteristics of supplier finance arrangements. We suggest clarifying in this paragraph that a key feature of supplier finance arrangement is the entity would be paying a finance provider rather than the original supplier.

We also agree with deleting paragraph 167 and the amendment proposed for paragraph 168 of IFRS 19. We note these proposed amendments are consistent with the principle set out in paragraph BC50 of IFRS 19 for developing the standard.

The disclosure requirements in paragraphs 167A – 168 are sufficient and clear after the amendments.

QUESTION 3 – INTERNATIONAL TAX REFORM – PILLAR TWO MODEL RULES (PROPOSED AMENDMENTS TO PARAGRAPHS 198–199 OF IFRS 19)

The IASB is proposing to retain the disclosure requirements in IFRS 19 relating to the amendments to IAS 12 that introduced:

a) a temporary exception to the requirements to recognise and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes; and
b) targeted disclosure requirements for affected entities.

The only proposed change is to remove paragraph 198 of IFRS 19 and the reference to a disclosure objective in paragraph 199 of IFRS 19.

Paragraphs BC18–BC21 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for this proposal.

Do you agree that following the removal of reference to the disclosure objective, the disclosure requirements in paragraphs 196–199 of IFRS 19 are sufficient and clear? Please explain your reasons.

ACCA response

We are supportive of the proposed amendments as the disclosure requirements in paragraphs 196 – 199 are sufficient and clear after the amendments.

QUESTION 4 – LACK OF EXCHANGEABILITY (PROPOSED AMENDMENTS TO PARAGRAPHS 221–223 OF IFRS 19)

The IASB is proposing to retain the disclosure requirements in IFRS 19 relating to the amendments for lack of exchangeability issued in August 2023. The IASB amended IAS 21 to require an entity to apply a consistent approach:

a) to assessing whether a currency is exchangeable into another currency; and
b) to determining the exchange rate to use and the disclosures to provide if a currency is not exchangeable.

The only proposed change is to remove from IFRS 19 the disclosure objective and the reference to the amount of detail necessary to satisfy that objective.

Paragraphs BC22–BC26 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for this proposal.

Do you agree that following the removal of reference to the disclosure objective, the disclosure requirements in paragraphs 221–223 of IFRS 19 are sufficient and clear?

Are there any other disclosure requirements that should be removed from IFRS 19? Please explain your reasons.

ACCA response

We are supportive of the proposed amendments as the disclosure requirements in paragraphs 221 – 223 remain sufficient and clear after the amendments.

QUESTION 5 – FINANCIAL INSTRUMENTS CLASSIFICATION AND MEASUREMENT (NO CHANGES PROPOSED)

Paragraphs 56A–56D of IFRS 19 were added due to Amendments to the Classification and Measurement of Financial Instruments issued in May 2024. The paragraphs contain disclosure requirements relating to the effect of contractual terms that could change the amount of contractual cash flows as a result of a contingent event that does not directly relate to basic lending risks and costs (such as the time value of money or credit risk).

The amendments to IFRS 19 were made without reducing the disclosure requirements. Having considered the amendments, the IASB proposes not to reduce the disclosure requirements because they provide users of eligible subsidiaries' financial statements with information about short-term cash flows and obligations, as well as solvency and liquidity.

Paragraphs BC27–BC31 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for this proposal.

Do you have comments or suggestions on the proposal not to reduce the disclosure requirements introduced by the amendments to IFRS 7 issued in May 2024? Please explain your reasons.

ACCA response

We have reservations about adding paragraphs 56A – 56C of IFRS 19 as currently drafted. We note these paragraphs 56A and 56B are similar to paragraphs 20B and 20C in the *Amendments to the Classification and Measurement of Financial Instruments* ED, whereas paragraph 56C is an example that's been added subsequently.

We would like to draw your attention to our comment letter dated 13 July 2023 for that ED. With reference to our comments to question 6 in that ED, we raised concerns about the overly wide scope in paragraph 20B. The scope needs to be clarified to avoid getting all contingent events specific to the debtor to fall within the ambit of paragraph 20B (now, paragraph 56A of IFRS 19), which may be onerous for eligible subsidiaries to report on.

With regard to financial liabilities, the proposed disclosures required in paragraph 20B appear to overlap with the existing paragraph B10A of IFRS 7 which already requires an entity to provide quantitative information that enable users of its financial statements to evaluate the extent of the risk of cash outflows that could either occur significantly earlier, or of significantly different amounts from the contractual maturity analyses disclosed in accordance with paragraph 39 of IFRS 7. Therefore, we suggest excluding financial liabilities from the requirements of the proposed paragraphs 20B and 20C (now paragraphs 56A and 56B).

Though the IASB did not consult on reduced disclosure requirements for eligible subsidiaries at that time, we believe the abovementioned concerns would be applicable to creating disclosure requirements that are proportionate for eligible subsidiaries.

QUESTION 6 – REGULATORY ASSETS AND REGULATORY LIABILITIES

An entity that applies IFRS 19 and the prospective RARL Standard will be required to apply the disclosure requirements in the prospective RARL Standard. The IASB is proposing to remove the disclosure requirements relating to IFRS 14, which were included in IFRS 19, when the prospective RARL Standard is issued and to amend paragraph 4(b) of IFRS 19 such that the disclosure requirements in the prospective RARL Standard remain applicable. These changes would be consequential amendments in the prospective RARL Standard.

Table 1 describes the disclosure requirements the IASB has tentatively decided to include in the prospective RARL Standard. Eligible subsidiaries with regulatory assets and regulatory liabilities would be required to apply all these requirements if IFRS 19 were not amended to reduce the disclosure requirements. Table 1 also illustrates which requirements might be reduced if the IASB were instead to apply its principles for developing reduced disclosure requirements for entities applying IFRS 19.

This Exposure Draft proposes no reductions in disclosure requirements relating to regulatory assets and regulatory liabilities at this stage.

Paragraphs BC32–BC37 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for these proposals.

Are you aware of entities that have regulatory assets and regulatory liabilities within the scope of the IASB's project on rate-regulated activities that would be eligible to apply IFRS 19?

Do you agree that an entity applying IFRS 19 and the prospective RARL Standard should be required to apply all the disclosure requirements in the prospective RARL Standard illustrated in Table 1? If you disagree, please suggest the disclosure requirements in Table 1 that an eligible subsidiary applying IFRS 19 should not be required to apply. Please explain your reasons.

ACCA response

Not reducing disclosure requirements at this stage
There may be unique aspects of a subsidiary's rate regulated activities that users of the entity's financial statements (other than parent) need to understand. Based on the IASB's latest workplan, the prospective RARL Standard is expected to be issued in the second half of 2025 (H2 2025) and the standard is expected to be effective for annual periods beginning on or after 1 January 2029, with earlier application permitted. We agree that the disclosure requirements in the prospective RARL Standard should not be reduced at this stage given the lack of experience with the standard.

New disclosure requirements from the prospective RARL Standard
We also support replacing the disclosure requirements relating to regulatory assets and regulatory liabilities in IFRS 19 with disclosure requirements from the prospective RARL Standard, when the standard is issued. We believe those disclosure requirements from IFRS 14 should be removed from IFRS 19 only when the prospective RARL Standard becomes effective. Thereby avoiding any confusion or temporary void during the intervening period before the prospective RARL Standard is effective.

However, we are unable to conclude whether eligible subsidiaries should apply **all** the disclosure requirements in the prospective RARL Standard when applying IFRS 19 given the lack of experience with the standard that has yet to be issued.

With reference to our July 2021 comment letter for the *Regulatory Assets and Regulatory Liabilities* ED, though we expressed support for the *'objective of the disclosures being focused on the regulatory income, expense, assets and liabilities […],'* we note the IASB did not consult on reduced disclosure requirements for eligible subsidiaries at that time. Thus, we have not given due consideration to reducing disclosures for eligible subsidiaries.

Table 1 in this ED sets out disclosure objectives and requirements that the IASB has tentatively decided to include in the prospective RARL Standard. We believe preparers and users need to familiarise themselves with the new disclosure requirements <u>before</u> evaluating the implications of reduced disclosures.

Except for row no. 11 in Table 1, the other grey-shaded rows (which represent potential reductions in disclosure) appear to be disclosure objectives and application guidance for applying the disclosure requirements. While the IASB may have applied the principles in paragraphs BC50, BC51 and BC53 of IFRS 19 when suggesting the potential reductions, we are unable to evaluate at this stage whether removing disclosure objectives and application guidance for new disclosure requirements would be wise and/or helpful to eligible subsidiaries and users of their financial statements.

As we have seen in the amendments proposed for questions 2 and 3 above, reducing disclosure requirements involves more than removing paragraphs. In question 2, a new description is introduced while deleting the disclosure objective. In question 3, though the disclosure objective is deleted, part of it is moved into another paragraph to form a disclosure requirement.

Therefore, we suggest the IASB conduct further outreach with eligible subsidiaries that are within the scope of the prospective RARL Standard and users of their financial statements to evaluate whether both parties would benefit from reduced disclosures relating to regulatory assets and regulatory liabilities, as well as modifications to the prospective disclosure requirements. This suggestion is consistent with the IASB’s principles for developing and maintaining IFRS 19 that are set out in paragraphs BC33, BC50 – BC53, BC109 and BC110 of IFRS 19.