IFRS 19: Subsidiaries without Public Accountability: Disclosures

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Background

In May 2024, the IASB issued IFRS 19 *Subsidiaries without Public Accountability: Disclosures*. This standard is effective for reporting periods beginning on or after January 1, 2027, with earlier application permitted. It allows eligible subsidiaries to apply IFRS Accounting Standards with reduced disclosures, instead of the full disclosure requirements in other IFRS Accounting Standards.

Issue 1: Objective of IFRS 19

Analysis

When a parent entity applies IFRS Accounting Standards, its subsidiaries might also apply these standards to align their accounting policies for group reporting purposes. A subsidiary applying IFRS Accounting Standards must meet all relevant disclosure requirements. However, complying with all these requirements can be onerous, and for some subsidiaries, it might not be necessary to meet the needs of financial statement users.

Some subsidiaries of parent entities applying IFRS Accounting Standards are eligible to use another framework, such as Accounting Standards for Private Enterprises (ASPE), in their individual general purpose financial statements. However, differences in recognition and measurement requirements between the frameworks used by a parent and its subsidiary create additional costs and complexities. For example, the subsidiary might need to maintain dual accounting records to provide IFRS Accounting Standards compliant information for the parent's consolidated financial statements.

The IASB designed IFRS 19 to address both the excessive costs of maintaining dual accounting records and the potentially unnecessary disclosure requirements in IFRS Accounting Standards for eligible subsidiaries.

IFRS 19 sits alongside other IFRS Accounting Standards. An eligible entity that elects to apply IFRS 19 must still comply with the recognition, measurement and presentation requirements of other IFRS Accounting Standards. However, it may apply the reduced disclosure requirements specified in IFRS 19. For example, paragraph 17 of IAS 24 *Related Party Disclosures*, states:

An entity shall disclose key management personnel compensation in total and for each of the following categories:

a. short-term employee benefits;

b. post-employment benefits;

c. other long-term benefits;

d. termination benefits; and

e. share-based payment.

However, paragraph 227 of IFRS 19 states: “An entity shall disclose key management personnel compensation in total.” Evidently, the disclosure requirement in IFRS 19 is less onerous.

Another example of a reduced disclosure requirement in IFRS 19 pertains to the nature and extent of risks arising from financial instruments. Paragraphs 31-42 of IFRS 7 *Financial Instruments: Disclosures* require detailed disclosures of credit risk, liquidity risk and market risk. However, an eligible subsidiary applying IFRS 19 is only required to disclose information about its credit risk and liquidity risk.

IFRS 19 requires entities to apply the full disclosure requirements relating to operating segments, earnings per share or insurance contracts, if applicable. Paragraph 4(b) states: “if an entity applying this Standard applies IFRS 8 *Operating Segments*, IFRS 17 *Insurance Contracts* or IAS 33 *Earnings per Share*, it shall apply all the disclosure requirements in those Standards.”

Additionally, paragraph 6 of IFRS 19 requires an eligible subsidiary to provide further disclosures if the reduced disclosure requirements in IFRS 19 are insufficient to help users of the financial statements understand the effects of transactions and other events and conditions on the subsidiary’s financial position or performance. This depends on the individual entity’s specific facts and circumstances.

Issue 2: Scope of IFRS 19

Analysis

Paragraph 7 of IFRS 19 states:

An entity may elect to apply this Standard in its consolidated, separate or individual financial statements if, and only if, at the end of the reporting period:

a. it is a subsidiary;

b. it does not have public accountability (see paragraphs 11–12); and

c. it has an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Accounting Standards.

Regarding criterion (a), IFRS 19 applies the same definition of a subsidiary as the one in Appendix A of IFRS 10 *Consolidated Financial Statements* (i.e., an entity that is controlled by another entity) and can include intermediate parents within a group.

Regarding criterion (b), paragraph 11 of IFRS 19 says:

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, banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks often meet this second criterion).

Determining whether an entity holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses may require judgment. Paragraph 11(b) of IFRS 19 provides some examples of when this is often the case.

However, some entities may hold and manage financial resources on behalf of a broad group of outsiders for reasons incidental to primary business activities. For example, this may be the case for travel or real estate agents, schools, charitable organizations, cooperative enterprises requiring nominal membership deposits and sellers that receive payment in advance of delivery of goods or services such as utility companies.

Paragraph 12 of IFRS 19 clarifies that these arrangements do not, in themselves, make an entity publicly accountable. The assessment of whether the holding of assets in a fiduciary capacity is incidental to a primary business depends on an entity's individual facts and circumstances.

Regarding criterion (c), the phrase "available for public use" is not defined within IFRS Accounting Standards. However, this phrase is also used in paragraph 4 of IFRS 10. In the context of IFRS 10, one might interpret it to mean that a member of the public should be able to obtain the financial statements without undue cost or effort. For example, the financial statements are available on the company's website shortly after the year-end and are not subsequently removed until the entity is listed or the financial statements can be obtained for a negligible fee.

Entities that want to apply IFRS 19 must assess whether they meet the criteria in paragraph 7 at the end of the reporting period. If a subsidiary does not meet the criteria at the end of its reporting period, it cannot apply IFRS 19, regardless of whether it met the criteria at the start of, anytime during, for the majority of or even close to the end of, its reporting period.

Additionally, when an intermediate parent meets the criteria in paragraph 7, it is eligible to apply IFRS 19 in its separate financial statements, irrespective of whether other group entities, or the whole group, have public accountability. An eligible intermediate parent may also make separate elections on whether to apply IFRS 19 for its separate financial statements and its consolidated financial statements.

Issue 3: Benefits of Applying IFRS 19

Analysis

Examples of entities that, if eligible, might benefit from applying IFRS 19 include:

a. private enterprises currently applying ASPE that are subsidiaries of publicly traded companies producing consolidated financial statements in compliance with IFRS Accounting Standards; and

b. Canadian subsidiaries applying either ASPE or IFRS Accounting Standards, of an international group, when the parent produces publicly available consolidated financial statements in compliance with IFRS Accounting Standards.

These scenarios could arise, for example, in a group that has been growing through acquisitions.

The benefits of applying IFRS 19 will vary by entity, but might include:

a. centralizing and standardizing reporting processes throughout a group, which may reduce the time needed to prepare subsidiaries' financial statements;

b. minimizing the need to maintain local accounting manuals and reconciliation tables or consolidation packages (e.g., between IFRS Accounting Standards and ASPE); and

c. facilitating a centralized audit process focused on information prepared in accordance with IFRS Accounting Standards that may reduce audit fees.

The Group's Discussion

The Group agreed with the analysis and acknowledged that many subsidiaries that meet the scoping criteria in IFRS 19 could benefit from its application. Some Group members also raised examples of other types of entities that could benefit from applying IFRS 19 if its scope were expanded. For example, one Group member noted that entities that are private equity investments do not qualify to apply IFRS 19 when the parent's financial statements are not available for public use. Therefore, they normally choose not to obtain an audit report on financial statements prepared in accordance with IFRS Accounting Standards. Instead, they normally only prepare a consolidation package for their parent company. They noted that these types of entities often plan to complete an initial public offering (IPO), and using IFRS Accounting Standards with the IFRS 19 disclosure requirements ahead of their IPO could facilitate the preparation of full IFRS Accounting Standards financial statements in due course. By adopting IFRS Accounting Standards prior to going public, these entities can establish a longer track record of audited financial statements prepared in accordance with IFRS Accounting Standards. This historical continuity simplifies the transition to public company reporting, as the entity would only need to supplement their existing disclosures to fully align with all IFRS Accounting Standards requirements. Group members also mentioned that expanding the scope of IFRS 19 could benefit other types of entities, such as certain joint ventures and insurance companies.

Some Group members cautioned that entities should consider whether IFRS 19 would meet contractual reporting requirements before applying it. Representatives of the Canadian Securities Administrators noted that IFRS 19 would not meet securities regulatory requirements except for some limited situations.

Overall, the Group's discussion raised awareness of the objective, scope and benefits of applying IFRS 19. The Group will continue to monitor the standard's adoption and consider if further action is warranted in the future.