IFRS® Accounting

Staff paper

Agenda reference: 32

IASB® meeting

Date	**January 2024**
Project	**Subsidiaries without Public Accountability: Disclosures – Catch-up Exposure Draft**
Topic	**Reviewing disclosure requirements**
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS® Accounting Standards or the *IFRS for SMEs®* Accounting Standard. The IASB's technical decisions are made in public and are reported in the IASB® *Update*.

Introduction and purpose of the paper

1. The purpose of this paper is to ask the International Accounting Standards Board (IASB) to agree on disclosure requirements to propose in the Catch-Up Exposure Draft (the catch-up Exposure Draft) that will be published after the issue of the new Standard *Subsidiaries without Public Accountability: Disclosures* (the Subsidiaries Standard) later in 2024.

2. In this paper, the term 'eligible subsidiary' refers to entities that meet the requirements that were proposed in paragraph 6 of the Exposure Draft *Subsidiaries without Public Accountability: Disclosures*.

Structure of the paper

3. This paper is structured as follows:
   (a) staff recommendation (paragraph 4);
   (b) project context (paragraphs 5–8);
   (c) staff analysis (paragraphs 9–24);
   (d) staff recommendation and question for the IASB (paragraph 25); and

(e) Appendix—disclosure requirements from new and amended IFRS Accounting Standards in the scope of this paper.

Staff recommendation

4. The staff recommend the IASB propose, in the catch-up Exposure Draft, disclosures drawn from:

   (a) paragraphs 44G, 44H(a), (b)(i)–(ii) and (c) of IAS 7 *Statement of Cash Flows* relating to Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7 *Financial Instruments: Disclosures*);

   (b) paragraphs 88A–88C of IAS 12 *Income Taxes* relating to International Tax Reform—Pillar Two Model Rules (Amendment to IAS 12); and

   (c) paragraphs 57A (adapted) and 57B of IAS 21 *The Effects of Changes in Foreign Exchange Rates* and paragraphs A19(a)–(e) and A20 of Appendix A to IAS 21 relating to Lack of Exchangeability (Amendment to IAS 21).

Project context

Background

5. The new Subsidiaries Standard is expected to be issued in the first half of 2024. This new Standard enables eligible subsidiaries to prepare financial statements using the recognition, measurement and presentation requirements of other IFRS Accounting Standards with reduced disclosures.

6. The disclosure requirements in the new Subsidiaries Standard are from IFRS Accounting Standards issued before the end of February 2020. In September 2023[1], the IASB discussed the plan for incorporating new or amended disclosure

[1] ap31-subsidiaries-approach-to-maintenance-sep2023.pdf (ifrs.org)

requirements in IFRS Accounting Standards issued after that date, and agreed that the catch-up Exposure Draft would propose disclosure requirements based on these new or amended requirements.

7. The IASB's agreed approach to maintenance of the Subsidiaries Standard requires that potential changes to the Standard are reviewed at two levels:

   (a) in detail against the principles for reducing disclosures set out in paragraph BC34 of the Basis for Conclusions on the 2021 Exposure Draft *Subsidiaries without Public Accountability: Disclosures*, relating to:

      (i) information about short term cash flows and obligations, commitments and contingencies whether or not they are recognised as liabilities;

      (ii) information about liquidity and solvency;

      (iii) information on measurement uncertainties;

      (iv) information about accounting policy choices; and

      (v) disaggregation of amounts presented in the financial statements.

   (b) at a high level, considering whether newly added or amended disclosure requirements would be proportional and would be in keeping with the goal of allowing reduced disclosures while meeting the needs of users of the financial statements of eligible subsidiaries.

8. New or amended IFRS Accounting Standards in scope of the catch-up Exposure Draft, with an indication of when staff papers will be brought to the IASB, are as follows:

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

Staff analysis

Non-current liabilities with covenants (Amendments to IAS 1 Presentation of Financial Statements)

9. Non-current liabilities with covenants, amendments to IAS 1 *Presentation of Financial Statements* were issued in October 2022, effective for reporting periods beginning on or after 1 January 2024. The new Standard on presentation of financial statements (PFS Standard) will be issued in the first half of 2024 and will replace IAS 1. The new PFS Standard will have the same effective date as the new Subsidiaries Standard.

10. Although this amendment to IAS 1 was issued separately its contents will be incorporated in the PFS Standard. Therefore, in the staff's view it will be appropriate

for the IASB to consider the disclosure requirements introduced by the amendment in a future staff paper addressing all the disclosure requirements in the PFS Standard.

Supplier Finance (amendments to IAS 7 and IFRS 7)

11. Amendments to IAS 7 regarding supplier finance arrangements were issued in May 2023, effective for periods beginning on or after 1 January 2024.

12. The amendments introduce a small number of disclosure requirements and some application guidance. The staff's recommendations, applying the principles for reducing disclosures, are set out in Table 1 in the Appendix to this paper.

13. The IASB tentatively decided in December 2023 to propose aligning the *IFRS for SMEs* Accounting Standard with the amendments and to include disclosures based on paragraphs 44H(a) and 44H(b)(ii).

14. The staff recommendations for the catch-up Exposure Draft are to exclude disclosure objectives and guidance, given the IASB's decision to exclude these from the Subsidiaries Standard. However, we are recommending proposing the disclosure requirements, except paragraph 44H(b)(iii) of IAS 7 which asks for indicative information on range of payment periods that does not appear to satisfy any of the principles for reducing disclosures. We think the disclosure requirement in paragraph 125 of the Exposure Draft on sources of estimation uncertainty and the requirements that will be added to the Subsidiary Standard relating to liquidity risk would include such disclosure if the amounts concerned were material. This is different from the proposal for SMEs, which excludes paragraph 44H(b)(i) and 44H(c).

International Tax Reform—Pillar Two Model Rules (amendments to IAS 12)

15. Amendments to IAS 12 relating to the Pillar Two model rules were issued in May 2023 and became effective immediately. The amendments relate to a very specific set of facts and circumstances which will affect a small group of entities eligible to apply the Subsidiaries Standard.

16. As noted in paragraphs BC292–BC293 of the Basis for Conclusions to the *IFRS For SMEs* Accounting Standard, the disclosure requirements for income taxes in the *IFRS for SMEs* Accounting Standard are different from those in IAS 12. Therefore, the starting point for developing the disclosure requirements for the Pillar Two model rules was different between the two Standards. This is not the same situation as deciding whether to reduce the disclosures for the Subsidiaries Standard because subsidiaries applying the Subsidiaries Standard will be applying IAS 12.

17. The staff recommendations are set out in Table 2 in the appendix to this paper. Most of the disclosure requirements in the IAS 12 amendments are recommended for inclusion in the catch-up Exposure Draft as they satisfy the principles for reducing disclosures, adapted only for language. The only exception is paragraph 88D and the example following it. The example is in the nature of guidance and therefore following the IASB decision that the Subsidiaries Standard should not include guidance it is not recommended to be included. Similarly, the requirements in paragraph 88D itself refer to a disclosure objective that would not be proposed in the catch-up Exposure Draft given the IASB decision not to include disclosure objectives.

18. An overview assessment (see paragraph 7(b) of this paper) shows that most of the disclosure requirements from the amendments to IAS 12 are also proposed for inclusion in the catch-up Exposure Draft. In the staff's view this is not disproportionate because the topic has a very narrow scope, and the disclosure requirements recommended satisfy the principles for reducing disclosures. Selecting fewer of the requirements for inclusion would mean that users of subsidiary financial statements would not have sufficient information to understand the effect of accounting for Pillar Two model rules. Eligible subsidiaries not in the scope of the IAS 12 requirements would not be affected.

Lack of exchangeability (amendments to IAS 21)

19. Amendments to IAS 21 on lack of exchangeability were issued in August 2023 and effective for periods beginning on or after 1 January 2025.

20. The amendments apply to a circumstance when an entity or its subsidiary, associate or joint venture has transactions or balances in a foreign currency that cannot be exchanged. The staff's analysis of the new disclosure requirements added to IAS 21 is in Table 3 in the Appendix to this paper.

21. The IASB discussed whether to propose amendments to the *IFRS for SMEs* Accounting Standard relating to lack of exchangeability in December 2023 and tentatively decided to propose alignment with the amended IAS 21 and to propose adding most of its disclosure requirements.

22. In accordance with the IASB's decision not to include disclosure objectives, the staff recommendation is to remove the objectives but replace references to them with a simpler direction to a list of clear disclosure requirements.

23. The requirements in paragraph 57A described as satisfying the disclosure objective provide information to users on liquidity and the staff therefore recommend that they are included in the catch-up Exposure Draft without reference to a disclosure objective. The next new paragraph in IAS 21 makes reference to paragraphs added to its application guidance. Normally these would be excluded from the Subsidiaries Standard as there is an overarching permission to subsidiaries to look directly to the guidance in other IFRS Accounting Standards rather than having it all reproduced in the Subsidiaries Standard itself. However here the "guidance" is effectively mandated in IAS 21 itself, so the staff's recommendation is that those elements of it that satisfy the reduced disclosure principles are included in the catch-up Exposure Draft, since this appears clearer to readers than proposing to include a reference in the Subsidiaries Standard to a mandatory application guidance from another IFRS Accounting Standard.

24. The amendments also included changes to IFRS 1 which do not need to be proposed in the catch-up Exposure Draft.

Staff recommendation and question for the IASB

25. The staff recommend the IASB propose in the catch-up Exposure Draft new or amended disclosure requirements drawn from:

    (a) paragraphs 44G, 44H(a), (b)(i)–(ii) and (c) of IAS 7 relating to supplier finance arrangements;

    (b) paragraphs 88A–88C of IAS 12 relating to Pillar Two model rules; and

    (c) paragraphs 57A (adapted) and 57B of IAS 21 and paragraphs A19(a)–(e) and A20 of Appendix A to IAS 21 relating to lack of exchangeability.

Question for the IASB
Does the IASB agree with the staff recommendation in paragraph 25 of this paper?

IFRS Accounting

Appendix—disclosure requirements from new or amended IFRS Accounting Standards

The tables in this Appendix show all of the new or amended disclosure requirements for the topics discussed in the paper, with the staff's recommendation for each and reference to the relevant paragraph numbers.

Table 1 Supplier Finance Arrangements (issued May 2023, effective for annual reporting periods beginning on or after 1 January 2024)

Paragraph reference	Texts of the requirements	Analysis and Conclusion
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. The staff recommend proposing this paragraph in the catch-up Exposure Draft.

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<tr><td>IAS 7.44H</td><td>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:
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).</td><td>The detailed requirements in the sub-paragraphs give information on commitments and on disaggregation, both of which are identified as important to users in the principles for reducing disclosures.

However, in the staff's view the requirement in sub paragraph (b)(iii) would involve costs for subsidiaries without adding enough information complying with the principles to justify these costs.

The staff recommend proposing in the catch-up Exposure Draft requirements from paragraphs (a), (b)(i)-(ii) and (c), with a modified introductory sentence that does not refer to disclosure objectives, but not the requirements from paragraph (b)(iii).</td></tr>
<tr><td>IFRS 7.B11F</td><td>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))</td><td>This is not a disclosure requirement but guidance. The guidance in paragraph B11F, from subparagraphs (a)–(i), supports the application of</td></tr>
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	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.	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. As for IFRS 7.B11F, this does not therefore need to be included in the catch-up Exposure Draft.

Table 2 International Tax Reform—Pillar Two Model Rules (issued May 2023, effective for annual reporting periods beginning on or after 1 January 2023)

Paragraph reference	Texts of the requirements	Analysis and Conclusion
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).	This provides information about the entity's accounting policy choices and should therefore be proposed 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.	This satisfies the principle of disaggregation and should therefore be proposed 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. Therefore should be proposed in the catch-up Exposure Draft. Note: reference is to "known or reasonably estimable information" so should not be unduly costly to preparers if the information is too difficult to obtain.
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.	Paragraph 88C is not described as a disclosure objective. This paragraph is in the nature of guidance and as such does not merit inclusion in the catch-up Exposure Draft.

	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.	The example is in the nature of guidance and therefore following the IASB decision that the Subsidiaries Standard should not include guidance this does not need to be included in the Exposure Draft.

Table 3 Lack of Exchangeability (Amendments to IAS 21) (effective for annual reporting periods beginning on or after 1 January 2025)

Paragraph reference	Texts of the requirements	Analysis and Conclusion
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 lead in sentence is a disclosure objective. However, subparagraphs (a) to (d) are disclosure requirements. The disclosures give information to users about liquidity and are therefore important to propose in the catch-up Exposure Draft, but the general principle is not to include disclosure objectives. Staff recommend rephrasing 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.	The Subsidiaries Standard does not in general include guidance; instead it reminds preparers that the guidance included in IFRS Accounting Standards remains available to them. This paragraph is a special case. It refers to paragraphs in Appendix A of IAS 21 is named as "Application Guidance" which would usually be

		non-mandatory. However paragraphs A18–A20 are effectively scoped into the Standard itself. The referenced paragraphs are discussed below; any that merit inclusion for eligible subsidiaries should be proposed in the catch-up Exposure Draft.
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: recommend not to include 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 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 in sub-paragraph (e) about accounting policy choices, therefore the staff recommend these are proposed in the catch-up Exposure Draft, with internal references updated appropriately. Sub paragraph (f) does not satisfy any of the principles for reduced disclosures and the staff recommend this is not included in the catch-up Exposure Draft.

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. In particular sub paragraph (c) requires information that informs users about obligations, commitments and contingencies, identified as of particular interest to users of subsidiary financial statements. The staff recommend that all of these disclosure requirements are 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 (as it was not proposed in the Exposure Draft) and therefore changes to it need not be included in the catch-up Exposure Draft.