IFRS Accounting

# Staff paper

Agenda reference: 32A

**IASB® meeting**

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| Date | **March 2024** |
| Project | **Subsidiaries without Public Accountability: Disclosures – Catch-up Exposure Draft** |
| Topic | **Disclosure requirements from the new PFS Standard** |
| Contacts | Helen Lloyd (hlloyd@ifrs.org) |

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## Introduction and purpose of the paper

1. The purpose of this paper is to ask the International Accounting Standards Board (IASB) to decide 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. The disclosure requirements to be discussed are those from the prospective standard IFRS 18 *Presentation and Disclosure in Financial Statements* (IFRS 18), which is expected to be issued before the Subsidiaries Standard. The analysis in this paper is based on a draft of IFRS 18.

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* (the Exposure Draft).

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## Structure of the paper

3. This paper is structured as follows:

   (a) staff recommendations (paragraphs 4–5);

   (b) tentative decisions to date (paragraphs 6–11);

   (c) areas of judgement (paragraphs 12–28);

   (d) staff recommendations and question for the IASB (paragraphs 29–30); and

   (e) Appendix—draft disclosure requirements from IFRS 18 that will be included in the Subsidiaries Standard when issued later in 2024.

## Staff recommendations

4. The staff recommend the IASB propose, in the catch-up Exposure Draft, the retention of the disclosure requirements from IFRS 18 that will be in the Subsidiaries Standard when issued, subject to:

   (a) replacing the requirements relating to management-defined performance measures with a reference to those requirements in IFRS 18, to be located in the paragraph of the Subsidiaries Standard that lists the requirements in IFRS 18 that remain applicable to an eligible subsidiary; and

   (b) removing the disclosure objective from a disclosure requirement relating to non-current liabilities.

5. The staff also recommends that the IASB does not include in the catch-up Exposure Draft any proposals relating to disclosure requirements carried forward from IAS 1 *Presentation of Financial Statements* to IFRS 18 without amendment (other than minor editorial changes), which the IASB has already considered during the development of the Subsidiaries Standard.

## Tentative decisions to date

### *IAS 1 and IFRS 18*

6. When the Exposure Draft setting out proposals for the new Subsidiaries Standard was published, it took into account IFRS Accounting Standards issued before the end of February 2021. Consequently, the Exposure Draft included proposals relating to the disclosure requirements in IAS 1.

7. IFRS 18 is expected to be issued in April 2024 and will replace IAS 1. Because IFRS 18 will be issued before the Subsidiaries Standard, the IASB decided that the Subsidiaries Standard should, as a short-term measure, include all of the new and amended disclosure requirements from IFRS 18. That is necessary because IFRS 18 will not only include some disclosure requirements carried forward from IAS 1, but also will introduce new disclosure requirements and amend others, and these changes have not been subject to due process for the purposes of the Subsidiaries Standard. These new and amended requirements need to be assessed against the principles for reducing disclosure requirements as part of developing the catch-up Exposure Draft. The catch-up Exposure Draft therefore will set out proposed amendments to the Subsidiaries Standard, based on the IASB's decisions on whether each of these new or amended requirements should be either retained in, or removed from, the Subsidiaries Standard.

8. The Subsidiaries Standard will permit early application; therefore, it can be applied before the effective date of IFRS 18. When this happens, the disclosure requirements in IFRS 18 will not yet be applicable to an eligible subsidiary applying the Subsidiaries Standard. In this situation, the entity will apply disclosure requirements from IAS 1, which will be set out in an appendix to the Subsidiaries Standard.

### *Developing the catch-up Exposure Draft*

9. 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 Exposure Draft, 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.

10. In its January 2024 meeting, the IASB discussed disclosure requirements relating to three sets of amendments to IFRS Accounting Standards:

   (a) Supplier Finance Arrangements (amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures*);

   (b) International Tax Reform—Pillar Two Model Rules (amendments to IAS 12 *Income Taxes*); and

   (c) Lack of Exchangeability (amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates*).

11. The IASB decided to propose in the catch-up Exposure Draft the retention of most of the disclosure requirements from these amendments in the Subsidiaries Standard, based on the principles for reducing disclosure requirements and the explanation in each Basis for Conclusions relating to the amendments. Where there were judgement areas, the IASB tentatively decided to propose retaining the requirements and consult specifically on these matters.

## Areas of judgement

### *General considerations relating to assessing disclosure requirements from IFRS 18*

12. The staff recommend that the catch-up Exposure Draft does not include any proposals relating to disclosure requirements carried forward from IAS 1 to IFRS 18 without amendment (other than minor editorial changes), which the IASB has already considered in developing the Subsidiaries Standard (in both the IASB's original deliberations and its redeliberations when finalising the Standard). Hence, the IASB has already decided whether these disclosure requirements should be included in, or excluded from, the Subsidiaries Standard. Past decisions in these areas do not require reassessment.

13. Among other things, IFRS 18 will contain improved requirements relating to the aggregation and disaggregation of information in financial statements. As explained in the draft Basis for Conclusions on IFRS 18, the aggregation and disaggregation of information avoids both omitting useful information by providing insufficient detail and obscuring information with too much detail. That suggests that new or amended disclosure requirements relating to aggregation and disaggregation are likely to help eligible subsidiaries to provide information to meet the needs of users of their financial statements. Disaggregation requirements are also likely to meet the principle relating to disaggregation (see paragraph 9(a)(v)).

14. The table in the Appendix to this paper sets out the draft disclosure requirements from IFRS 18 that will be included in the Subsidiaries Standard when issued. Those disclosure requirements include both:

    (a) disclosure requirements carried forward from IAS 1 to IFRS 18 that the IASB has previously decided should be included in the Subsidiaries Standard; and

    (b) new and amended disclosure requirements from IFRS 18, as discussed in paragraph 7.

15. For each of those draft disclosure requirements, the table in the Appendix provides one of three staff recommendations:

    (a) *Recommend retention* – in the staff's assessment, at least one of the principles for reducing disclosure requirements is satisfied. Therefore, the catch-up Exposure Draft should not propose the deletion of the disclosure requirement in the Subsidiaries Standard.

    (b) *Recommend reference* – each section in the Subsidiaries Standard includes a paragraph listing requirements in the source standard that remain applicable to an eligible subsidiary. This paragraph is used for, among other things, requirements in an IFRS Accounting Standard that relate to both presentation and disclosure, meaning it would not be appropriate to either reproduce their entire content in the Subsidiaries Standard or to exclude them entirely (as discussed further in paragraphs 25–26).

    (c) *Consultation completed* – as outlined in paragraph 12 of this paper, proposals relating to disclosure requirements from IAS 1 that have already been selected for inclusion in the Subsidiaries Standard do not need to be included in the catch-up Exposure Draft.

### *Management-defined performance measures*

16. IFRS 18 will include a requirement to identify management-defined performance measures, being a subtotal of income and expenses that the entity uses in public communications outside financial statements and uses to communicate to users of the entity's financial statements management's view of an aspect of the financial performance of the entity as a whole, except for specific defined measures. If an entity uses measures that meet the definition of management-defined performance measures, there are related disclosure requirements.

17. In the context of entities applying the Subsidiaries Standard, if an eligible subsidiary uses management-defined performance measures, the level of interest to users of eligible subsidiaries' financial statements is likely to be affected by the type of management-defined performance measures used by an eligible subsidiary. If an eligible subsidiary uses measures relating to the types of information that users of an eligible subsidiary's financial statements are likely to be interested in (as indicated by the principles for reducing disclosure requirements), disclosures about these measures could be highly relevant to users of the subsidiary's financial statements. Failing to include disclosure requirements in the Subsidiaries Standard would, in this situation, diminish the quality of information available to users for measures management has identified as important to understanding the performance of the business.

18. However, the staff think that subsidiaries eligible to apply the Subsidiaries Standard are less likely to make use of management-defined performance measures than entities that are not eligible to apply the Standard. An entity that does not use management-defined performance measures in public communications outside its financial statements, and which prepares those financial statements in compliance with IFRS Accounting Standards, with no more information in those financial statements than is required by its own jurisdiction would not be compelled to provide any disclosures relating to management-defined performance measures, since it would not be providing any measures that met the definition. Therefore, including the requirements in the Subsidiaries Standard would, in theory, not create any extra work or cost for

subsidiaries that do not use any such measures, but would benefit users of eligible subsidiaries' financial statements that do use management-defined performance measures.

19. The assessment of whether to propose in the catch-up Exposure Draft the retention of the disclosure requirements on management-defined performance measures in the Subsidiaries Standard therefore is a practical decision: there will be around 20 paragraphs relating to management-defined performance measures in the Subsidiaries Standard and retaining all of these requirements in the Subsidiaries Standard, which are not likely to be applicable to many eligible subsidiaries, adds length to the Standard without much benefit overall.

20. The staff's recommendation is to take an approach similar to that used in the Subsidiaries Standard relating to IFRS 8 *Operating Segments.* The draft Subsidiaries Standard says that "If an entity applying this Standard applies IFRS 8 *Operating Segments*… it shall apply all the disclosure requirements set out in those Standards". The catch-up Exposure Draft could propose replacing all of the disclosure requirements relating to management-defined performance measures in the Subsidiaries Standard with a requirement for an eligible subsidiary that uses management-defined performance measures, as defined in IFRS 18, to provide the disclosures set out in that Standard.

21. In the staff's view, this replacement requirement could be included within the existing paragraph of the Subsidiaries Standard that refers to other disclosure requirements in IFRS 18 that remain applicable.

### *Main business activities*

22. To apply requirements for classifying income and expenses in the operating, investing and financing categories in the statement of profit or loss, IFRS 18 will require entities to assess whether they invest in assets or provide financing to customers as a main business activity. An entity that does so will be required to disclose that fact and to disclose information about any change to its assessment.

23. On the face of it, these disclosure requirements do not satisfy any of the principles for reducing disclosure requirements, which indicates that the IASB should propose their removal from the Subsidiaries Standard. However, if an eligible subsidiary invests in assets or provides financing to customers as a main business activity, that will affect the structure of its statement of profit or loss, including which types of income and expenses are included in its operating profit. Hence, the disclosures would provide important information to users of the financial statements of an eligible subsidiary that invests in assets or provides financing to customers as a main business activity. Also, the Subsidiaries Standard will include credit risk disclosures required for entities that provide financing to customers as one of their main business activities and will refer to IFRS 18 for the description of main business activities.

24. Therefore, the staff recommend that the disclosure requirements accompanying the main business activity assessment are retained in the Subsidiaries Standard

### *Requirements that relate to both presentation and disclosure*

25. As described in paragraph 15(b) of this paper, the staff are recommending that, in some cases, the Subsidiaries Standard refers to disclosure requirements in IFRS 18, rather than reproducing those requirements in the Subsidiaries Standard.

26. This includes requirements that relate to both presentation and disclosure. It may be the case that a few of these requirements would not satisfy a strict test against the principles for reducing disclosure requirements in the Subsidiaries Standard. However, in the staff's view, attempting to separate such requirements into the presentation parts and the disclosure parts often would not be feasible. Therefore, the staff recommend the Subsidiaries Standard refer to these requirements in full, rather than attempting to select parts of them to include in the Subsidiaries Standard.

### *Holistic assessment*

27. The discussion in paragraphs 12–26 addresses areas where there is judgement involved in the selection of disclosure requirements; others are simpler to assess against the principles and are set out in the table in the Appendix. The holistic assessment involves reviewing the volume of proposed disclosure requirements to ensure that there is a reasonable balance between meeting user needs and continuing to be attractive for preparers.

28. The consequence of following the staff recommendation would be that the catch-up Exposure Draft would, in effect, propose the retention of substantially all of the disclosure requirements from IFRS 18 that will be in the Subsidiaries Standard when first issued, either by retaining the disclosure requirement within the Subsidiaries Standard itself or by replacing it with a reference to the requirements in IFRS 18. If stakeholders have concerns about proportionality, that should become apparent in feedback on the catch-up Exposure Draft.

## Staff recommendations and question for the IASB

29. The staff recommend the IASB propose, in the catch-up Exposure Draft, the retention of the disclosure requirements from IFRS 18 in the Subsidiaries Standard, subject to:

    (a) replacing the requirements relating to management-defined performance measures with a reference to those requirements in IFRS 18, to be located in the paragraph of the Subsidiaries Standard that lists the requirements in IFRS 18 that remain applicable to an eligible subsidiary; and

    (b) removing the disclosure objective from a disclosure requirement relating to non-current liabilities.

30. The staff also recommend that the IASB does not include in the catch-up Exposure Draft any proposals relating to disclosure requirements carried forward from IAS 1 to IFRS 18 without amendment (other than minor editorial changes), which the IASB has already considered during the development of the Subsidiaries Standard.

| Question for the IASB |
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| Does the IASB agree with the staff recommendation in paragraphs 29 and 30 of this paper? |

## Appendix—draft disclosure requirements from IFRS 18 *Presentation and Disclosure in Financial Statements*

The table in this Appendix sets out the requirements from a draft of IFRS 18 (IFRS 18) that will be included in the Subsidiaries Standard when issued later in 2024. As noted in paragraph 12 of this paper, the requirements include both those carried forward from IAS 1 to IFRS 18 that the IASB has previously decided to include in the Subsidiaries Standard, and new or amended requirements from IFRS 18 to be assessed against the principles for reducing disclosure requirements as part of developing the catch-up Exposure Draft. The second column is the staff's commentary and recommendation, including references where appropriate to the original location in IAS 1 and to the reasoning in the draft Basis for Conclusions on IFRS 18.

| Draft IFRS 18 text currently in the draft Subsidiaries Standard (references are to paragraphs in the Subsidiaries Standard unless otherwise stated) | Remarks |
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| **Identification of the financial statements**<br>An entity shall clearly identify each primary financial statement and the notes. In addition, an entity shall disclose prominently, and repeat when necessary for the information provided to be understandable:<br>(a) the name of the reporting entity or other means of identification, and any change in that information from the end of the preceding reporting period;<br>(b) whether the financial statements are of an individual entity or a group of entities;<br>(c) the date of the end of the reporting period or the period covered by the financial statements;<br>(d) the presentation currency, as defined in IAS 21 *The Effects of Changes in Foreign Exchange Rates*; and<br>(e) the level of rounding used for the amounts in the financial statements (see paragraph B11 of IFRS 18). | This requirement is IAS 1.51 and was proposed in the Subsidiaries Exposure Draft.<br><br>**Consultation completed** |
| **Change in accounting policy, retrospective restatement or reclassification**<br>If an entity changes the presentation, disclosure or classification of items in its financial statements, it shall reclassify comparative amounts unless reclassification is impracticable. When an entity reclassifies comparative amounts, it shall disclose (including as at the beginning of the preceding period):<br>(a) the nature of the reclassification;<br>(b) the amount of each item or class of items that is reclassified; and<br>(c) the reason for the reclassification. | This requirement is IAS 1.41 and was proposed in the Subsidiaries Exposure Draft.<br><br>**Consultation completed** |
| When it is impracticable to reclassify comparative amounts, an entity shall disclose:<br>(a) the reason for not reclassifying the amounts; and<br>(b) the nature of the adjustments that would have been made if the amounts had been reclassified. | This requirement is IAS 1.42 and was proposed in the Subsidiaries Exposure Draft.<br><br>**Consultation completed** |

| Draft IFRS 18 text currently in the draft Subsidiaries Standard (references are to paragraphs in the Subsidiaries Standard unless otherwise stated) | Remarks |
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| When an entity is required to present a third statement of financial position applying paragraph 37 of IFRS 18 it shall disclose the information required by paragraphs 130–131, 179–182 and 187. However, it need not provide the related notes to the statement of financial position as at the beginning of the preceding period. | This requirement is IAS 1.40C and was proposed in the Subsidiaries Exposure Draft.<br><br>**Consultation completed** |
| **Statement of profit or loss**<br>*Entities with specified main business activities*<br>If an entity:<br>(a) invests in assets as a main business activity, it shall disclose that fact.<br>(b) provides financing to customers as a main business activity, it shall disclose that fact.<br>(c) changes its assessment of whether it invests in assets or provides financing to customers as a main business activity (see paragraph B41 of IFRS 18), it shall disclose:<br>(i) the fact the assessment has changed and the date of the change.<br>(ii) the amount and classification of items of income and expenses before and after the date of the change in assessment in the current period and the amount and classification in the prior period for the items for which the classification has changed because of the changed assessment, unless it is impracticable to do so. If an entity does not disclose the information because it is impracticable to do so, the entity shall disclose that fact. | New disclosure requirement. See paragraphs 22–24 of this paper.<br><br>**Recommend retention** |
| *Presentation and disclosure of expenses classified in the operating category*<br>An entity that presents one or more line items comprising expenses classified by function in the operating category of the statement of profit or loss shall disclose in a single note:<br>(a) the total for each of:<br>(i) depreciation, comprising the amounts required to be disclosed by paragraphs 116(a), 201(e)(vii) and 272(d)(iv);<br>(ii) amortisation, comprising the amount required to be disclosed by paragraph 264(e)(vi); | Amendment of IAS 1.104, but akin to a new disclosure.<br><br>Draft Basis for Conclusions on IFRS 18 states that "Preparers of financial statements said they could provide at a reasonable cost disaggregated |

| Draft IFRS 18 text currently in the draft Subsidiaries Standard (references are to paragraphs in the Subsidiaries Standard unless otherwise stated) | Remarks |
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| (iii) employee benefits, comprising the amount for employee benefits recognised by an entity applying IAS 19 *Employee Benefits* and the amount for services received from employees recognised by an entity applying IFRS 2 *Share-based Payment*;<br>(iv) impairment losses and reversals of impairment losses, comprising the amounts required to be disclosed by paragraph 251(a)–(b); and<br>(v) write-downs and reversal of write-downs of inventories, comprising the amounts required to be disclosed by paragraph 165(d) –165(e); and<br>(b) for each total listed in (a)(i)–(v):<br>(i) the amount related to each line item in the operating category (see paragraph 137); and<br>(ii) a list of any line items outside the operating category that also include amounts relating to the total. | information about the amounts included in each line item in the operating category for a limited number of expenses classified by nature".<br><br>**Recommend retention** |
| Paragraph 41 of [draft] IFRS 18 requires an entity to disaggregate items to provide material information. However, an entity that applies paragraph 134 is exempt from disclosing:<br>(a) in relation to function line items presented in the operating category of the statement of profit or loss—disaggregated information about the amounts of nature expenses included in each line item, beyond the amounts specified in paragraph 134; and<br>(b) in relation to nature expenses specifically required by an IFRS Accounting Standard to be disclosed in the notes—disaggregated information about the amounts of the expenses included in each function line item presented in the operating category of the statement of profit or loss, beyond the amounts specified in paragraph 134.<br>The exemption in paragraph 135 relates to disaggregation of operating expenses. However, it does not exempt an entity from applying specific disclosure requirements relating to those expenses in this Standard. | Disaggregation<br>Also, this requirement is applied in conjunction with the previous requirement on the disclosure of information about operating expenses.<br><br>**Recommend retention** |
| *Use of characteristics of nature and function*<br>An entity will either present expenses by nature, or applying paragraph 134, disclose some expenses by nature. The amounts presented or disclosed need not be the amounts recognised as an expense in the | The draft Basis for Conclusions on IFRS 18 describes this paragraph as application guidance. |

| Draft IFRS 18 text currently in the draft Subsidiaries Standard (references are to paragraphs in the Subsidiaries Standard unless otherwise stated) | Remarks |
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| period. They could include amounts that have been recognised as part of the carrying amount of an asset. If an entity:<br>(a) presents amounts that are not the amounts recognised as an expense in the period, it will also present an additional line item for the change in the carrying amount of the affected assets. For example, applying paragraph 39 of IAS 2, an entity might present a line item for changes in inventories of finished goods and work in progress.<br>(b) discloses, applying paragraph 134(b), amounts that are not the amounts recognised as an expense in the period, the entity shall give a qualitative explanation of that fact, identifying the assets involved. | However, the final sentence contains a disclosure requirement that relates to the disclosure requirement on operating expenses, which the staff are recommended be retained.<br><br>**Recommend retention** |
| **Statement of financial position**<br>*Right to defer settlement for at least 12 months*<br>In applying paragraphs 101–102 and B96–B103 of IFRS 18 an entity might classify liabilities arising from loan arrangements as non-current when the entity's right to defer settlement of those liabilities is subject to the entity complying with covenants within 12 months after the reporting period (see paragraph B100(b) of IFRS 18). In such situations, the entity shall disclose information in the notes that enables users of financial statements to understand the risk that the liabilities could become repayable within 12 months after the reporting period, including:<br>(a) information about the covenants (including the nature of the covenants and when the entity is required to comply with them) and the carrying amount of related liabilities.<br>(b) facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants—for example, the entity having acted during or after the reporting period to avoid or mitigate a potential breach. Such facts and circumstances could also include the fact that the entity would not have complied with the covenants if they were to be assessed for compliance based on the entity's circumstances at the end of the reporting period. | Non-current liabilities with covenants is a new disclosure from the IAS 1 amendments made after the Subsidiaries Exposure Draft (see January 2024 Agenda Paper AP32 for previous deferral of this discussion)<br><br>This disclosure requirement meets the principle of short-term cash flows (see paragraph 9(a)(i) of the paper).<br><br>Includes a disclosure objective. The IASB decided not to include disclosure objectives in the Subsidiaries Standard.<br><br>**Recommend retention, except modified to remove the disclosure objective** |

| **Draft IFRS 18 text currently in the draft Subsidiaries Standard (references are to paragraphs in the Subsidiaries Standard unless otherwise stated)** | **Remarks** |
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| **Statement of changes in equity**<br>An entity shall either present in the statement of changes in equity or disclose in the notes the amount of dividends recognised as distributions to owners during the reporting period, and the related amount of dividends per share. | This requirement is IAS 1.107 and proposed in the Subsidiaries Exposure Draft.<br><br>**Consultation completed** |
| **Notes**<br>*Structure*<br>An entity shall disclose in the notes:<br>(a) information about the basis of preparation of the financial statements (see paragraphs 24 and 174–176) and the specific accounting policies used (see paragraphs 177–178);<br>(b) information required by this Standard that is not presented in the primary financial statements; and<br>(c) other information that is not presented in the primary financial statements, but is necessary for an understanding of any of them (see paragraph 20 of IFRS 18). | This requirement is IAS 1.112 and proposed in the Subsidiaries Exposure Draft<br><br>**Consultation completed** |
| An entity shall, as far as practicable, present notes in a systematic manner (see paragraph B112 of IFRS 18). In determining a systematic manner, the entity shall consider the effect on the understandability and comparability of its financial statements. An entity shall cross-reference each item in the primary financial statements to any related information in the notes. If amounts disclosed in the notes are included in one or more line items in the primary financial statements, an entity shall disclose in the note the line item(s) in the which the amounts are included. | This is a revised drafting of IAS 1.113. The last sentence is a new sentence.<br>New sentence satisfies disaggregation principle (see paragraph 9(a)(v) of this paper).<br><br>**Recommend retention** |

| Draft IFRS 18 text currently in the draft Subsidiaries Standard (references are to paragraphs in the Subsidiaries Standard unless otherwise stated) | Remarks |
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| If not disclosed elsewhere in information published with the financial statements, an entity shall disclose in the notes:<br>(a) the domicile and legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office); and<br>(b) a description of the nature of the entity's operations and its principal activities. | This is IAS 1.138 and proposed in the Subsidiaries Exposure Draft<br><br>**Consultation completed** |
| **Management-defined performance measures**<br>The objective of the disclosures for management-defined performance measures is for an entity to provide information to help a user of financial statements understand:<br>(a) the aspect of financial performance that, in management's view, is communicated by a management-defined performance measure; and<br>(b) how the management-defined performance measure compares with the measures defined by IFRS Accounting Standards. | **Recommend reference** (see paragraphs 16–21 of this paper) |
| An entity shall disclose information about all measures that meet the definition of management-defined performance measures in paragraph 117 of IFRS 18 in a single note (see paragraph 148). This note shall include a statement that the management-defined performance measures provide management's view of an aspect of the financial performance of the entity as a whole and are not necessarily comparable with measures sharing similar labels or descriptions provided by other entities. | **Recommend reference** (see paragraphs 16–21 of this paper) |
| An entity shall label and describe each management-defined performance measure in a clear and understandable manner that does not mislead users of financial statements (see paragraphs 149–150). For each management-defined performance measure the entity shall disclose:<br>(a) a description of the aspect of financial performance that, in management's view, is communicated by the management-defined performance measure. This description shall include explanations of why, in management's view, the management-defined performance measure provides useful information about the entity's financial performance. | **Recommend reference** (see paragraphs 16–21 of this paper) |

| Draft IFRS 18 text currently in the draft Subsidiaries Standard (references are to paragraphs in the Subsidiaries Standard unless otherwise stated) | Remarks |
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| (b) how the management-defined performance measure is calculated.<br>(c) a reconciliation between the management-defined performance measure and the most directly comparable subtotal listed in paragraph 118 of IFRS 18 or total or subtotal required to be presented or disclosed by IFRS Accounting Standards (see paragraphs 151–155).<br>(d) the income tax effect (determined by applying paragraph 156) and the effect on non-controlling interests for each item disclosed in the reconciliation required by (c).<br>(e) a description of how the entity applies paragraph 156 to determine the income tax effect required by (d). | |
| If an entity changes how it calculates a management-defined performance measure, adds a new management-defined performance measure, ceases using a previously disclosed management-defined performance measure or changes how it determines the income tax effects of the reconciling items required by paragraph 145(d), it shall disclose:<br>(a) an explanation that enables users of financial statements to understand the change, addition or cessation and its effects.<br>(b) the reasons for the change, addition or cessation.<br>(c) restated comparative information to reflect the change, addition or cessation unless it is impracticable to do so. An entity's selection of a management-defined performance measure is not an accounting policy choice. Nonetheless, in assessing whether restating the comparative information is impracticable, an entity shall apply the requirements in paragraphs 50–53 of IAS 8. | **Recommend reference** (see paragraphs 16–21 of this paper) |
| If an entity does not disclose the restated comparative information required by paragraph 146(c) because it is impracticable to do so, it shall disclose that fact. | **Recommend reference** (see paragraphs 16–21 of this paper) |
| *Single note for information about management-defined performance measures*<br>Paragraph 144 requires an entity to include in a single note all information about management-defined performance measures required by paragraphs 143–147. If an entity also discloses other information in | **Recommend reference** (see paragraphs 16–21 of this paper) |

| **Draft IFRS 18 text currently in the draft Subsidiaries Standard (references are to paragraphs in the Subsidiaries Standard unless otherwise stated)** | **Remarks** |
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| that note, the information in the note shall be labelled in a way that clearly distinguishes the information required by paragraphs 143–147 from the other information. | |
| *A clear and understandable manner*<br>Paragraph 145 requires an entity to label and describe its management-defined performance measures in a clear and understandable manner that does not mislead users of financial statements. To provide such a description an entity shall disclose information that enables a user of financial statements to understand the items of income and expenses included and excluded from the subtotal. Therefore, an entity shall:<br>(a) label and describe the measure in a way that faithfully represents its characteristics in accordance with paragraph 43 of IFRS 18 (see paragraph 151); and<br>(b) provide information specific to management-defined performance measures–that is:<br>(i) if the entity has calculated the measure other than by using the accounting policies it used for items in the statement(s) of financial performance, the entity shall state that fact and the calculations it has used for the measure; and<br>(ii) if, in addition, the calculation of the measure differs from accounting policies required or permitted by IFRS Accounting Standards, the entity shall state that additional fact and, if necessary, an explanation of the meaning of terms it uses (see paragraph 150(b)). | **Recommend reference** (see paragraphs 16–21 of this paper) |
| To label and describe the measure in a way that faithfully represents its characteristics an entity shall:<br>(a) label the measure in a way that represents the characteristics of the subtotal (for example, using the label 'operating profit before non-recurring expenses' only for a subtotal that excludes from operating profit all expenses identified by the entity as non-recurring); and<br>(b) explain the meaning of terms it uses in its descriptions that are necessary to understand the aspect of financial performance being communicated (for example, explaining how the entity defines 'non-recurring expenses'). | **Recommend reference** (see paragraphs 16–21 of this paper) |
| *Reconciliation to the most directly comparable total or subtotal*<br>Paragraph 145(c) requires an entity to reconcile each management-defined performance measure to the most directly comparable subtotal listed in paragraph 118 of IFRS 18 or total or subtotal required to be | **Recommend reference** (see paragraphs 16–21 of this paper) |

| Draft IFRS 18 text currently in the draft Subsidiaries Standard (references are to paragraphs in the Subsidiaries Standard unless otherwise stated) | Remarks |
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| presented or disclosed by IFRS Accounting Standards. For example, an entity that discloses in the notes a management-defined performance measure of adjusted operating profit or loss shall reconcile that measure to operating profit or loss. In aggregating or disaggregating the reconciling items disclosed, an entity shall apply the requirements in paragraphs 41–43 of IFRS 18. | |
| For each reconciling item an entity shall disclose:<br>(a) the amount(s) related to each line item in the statement(s) of financial performance; and<br>(b) a description of how the item is calculated and contributes to the management-defined performance measure providing useful information (see paragraphs 153–155), if necessary to provide the information required by paragraphs 145(a) and 145(b). | **Recommend reference** (see paragraphs 16–21 of this paper) |
| The description required in paragraph 152(b) is required if there is more than one reconciling item and each item is calculated using a different method or contributes to providing useful information in a different way. For example, an entity might exclude from a management-defined performance measure several items of expense, some because they were identified as outside management control and others because they were identified as non-recurring. In such cases, disclosure of which items contributed to which type of adjustment would be required to explain how the management-defined performance measure provides useful information. | **Recommend reference** (see paragraphs 16–21 of this paper) |
| A single explanation might apply to more than one item or might apply to all reconciling items collectively. For example, an entity might exclude several items of income and expenses in calculating a management-defined performance measure based on an entity-specific application of ‘non-recurring’. In such a case, a single explanation that includes the entity’s definition of ‘non-recurring’ that applies to all reconciling items might satisfy the requirement in paragraph 152(b). | **Recommend reference** (see paragraphs 16–21 of this paper) |
| Applying paragraph 145(c), an entity is permitted to reconcile a management-defined performance measure to a total or subtotal that is not presented in the statement(s) of financial performance. In such cases, an entity:<br>(a) shall reconcile that total or subtotal to the most directly comparable total or subtotal presented in the statement(s) of financial performance; and | **Recommend reference** (see paragraphs 16–21 of this paper) |

| Draft IFRS 18 text currently in the draft Subsidiaries Standard (references are to paragraphs in the Subsidiaries Standard unless otherwise stated) | Remarks |
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| (b) is not required to disclose the information required by paragraph 145(d) and 145(e) for the reconciliation in (a). | |
| *Income tax effect for each item disclosed in the reconciliation*<br>An entity is required by paragraph 145(d) to disclose the income tax effect for each item disclosed in the reconciliation between a management-defined performance measure and the most directly comparable subtotal listed in paragraph 118 of IFRS 18 or total or subtotal required to be presented or disclosed by IFRS Accounting Standards. An entity shall determine the income tax effect required by paragraph 145(d) by calculating the income tax effects of the underlying transaction(s):<br>(a) at the statutory tax rate(s) applicable to the transaction(s) in the tax jurisdiction(s) concerned;<br>(b) based on a reasonable pro rata allocation of the current and deferred tax of the entity in the tax jurisdiction(s) concerned; or<br>(c) by using another method that achieves a more appropriate allocation in the circumstances. | **Recommend reference** (see paragraphs 16–21 of this paper) |
| If, applying paragraph 156, an entity uses more than one method to calculate the income tax effects of reconciling items, it shall disclose how it determined the tax effects for each reconciling item. | **Recommend reference** (see paragraphs 16–21 of this paper) |
| *Subtotals of income and expenses*<br>A financial ratio is not a management-defined performance measure because it is not a subtotal of income and expenses. However, a subtotal that is the numerator or denominator in a financial ratio is a management-defined performance measure if the subtotal would meet the definition of a management-defined performance measure if it were not part of a ratio. Accordingly, an entity shall apply the disclosure requirements in paragraphs 143–147 to such a numerator or denominator. | **Recommend reference** (see paragraphs 16–21 of this paper) |
| *Public communications*<br>An entity shall consider only public communications related to the reporting period to identify management-defined performance measures for the period, unless as part of its financial reporting process it routinely issues such public communications after the date of issue of its financial statements. If that is | **Recommend reference** (see paragraphs 16–21 of this paper) |

| Draft IFRS 18 text currently in the draft Subsidiaries Standard (references are to paragraphs in the Subsidiaries Standard unless otherwise stated) | Remarks |
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| the case, an entity shall consider public communications related to the previous reporting period to identify management-defined performance measures for the current period. | |
| However, a measure used in the public communications related to the previous reporting period is not required to be identified as a management-defined performance measure for the current reporting period if there is evidence that indicates it will not be included in the public communications to be issued relating to the current reporting period. If such a measure had been disclosed as a management-defined performance measure in the previous period and is not identified as such for the current period, that would be a change to, or a cessation of, a management-defined performance measure to which the disclosure requirements in paragraph 146 apply. | **Recommend reference** (see paragraphs 16–21 of this paper) |
| **Other disclosures**<br>An entity shall either present in the statement of financial position or the statement of changes in equity or disclose in the notes:<br>(a) for each class of share capital:<br>(i) the number of shares authorised;<br>(ii) the number of shares issued and fully paid, and issued but not fully paid;<br>(iii) par value per share, or a statement that the shares have no par value;<br>(iv) a reconciliation (comparative information is not required) of the number of shares outstanding at the beginning and at the end of the reporting period;<br>(v) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;<br>(vi) shares in the entity held by the entity or by its subsidiaries or associates; and<br>(vii) shares reserved for issue under options and contracts for the sale of shares, including terms and amounts;<br>(b) a description of the nature and purpose of each reserve within equity. | This is IAS 1.79 and proposed in the Subsidiaries Exposure Draft.<br><br>**Consultation completed** |

| Draft IFRS 18 text currently in the draft Subsidiaries Standard (references are to paragraphs in the Subsidiaries Standard unless otherwise stated) | Remarks |
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| An entity without share capital, such as a partnership or trust, shall disclose information equivalent to that required by paragraph 156(a), showing changes during the reporting period in each category of equity interest, and the rights, preferences and restrictions attaching to each category of equity interest. | This is IAS 1.80 and proposed in the Subsidiaries Exposure Draft.<br><br>**Consultation completed** |
| An entity shall disclose in the notes:<br>(a) the amount of dividends proposed or declared before the financial statements were authorised for issue but not recognised as a distribution to owners during the reporting period, and the related amount per share; and<br>(b) the amount of any cumulative preference dividends not recognised. | This is IAS 1.137 and proposed in the Subsidiaries Exposure Draft<br><br>**Consultation completed** |

| Disclosure requirements in draft IFRS 18 that remain applicable | Remarks |
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| An entity shall apply the disclosure requirements in paragraphs 19, 20, 28, 41, 42, 43, 82, 90, 92, B8, B11, B14, B26(b) and B28 of IFRS 18.<br><br>*Note: The references below are to paragraphs in the draft IFRS 18.* | The IFRS 18 section of the Subsidiaries Standard will include a list of the paragraphs of IFRS 18 that remain applicable. These paragraphs are analysed below. |
| Some IFRS Accounting Standards specify information that is required to be presented in the primary financial statements or disclosed in the notes. An entity need not provide a specific presentation or disclosure required by IFRS Accounting Standards if the information resulting from that presentation or disclosure is not material. This is the case even if IFRS Accounting Standards contain a list of specific requirements or describe them as minimum requirements. | This is IAS 1.31 and included in the Subsidiaries Exposure Draft (by reference)<br><br>**Consultation completed** |
| An entity shall consider whether to provide additional disclosures when compliance with the specific requirements in IFRS Accounting Standards is insufficient to enable users of financial statements to understand the effect of transactions and other events and conditions on the entity's financial position and financial performance. | This is IAS 1.31 and included in the Subsidiaries Exposure Draft (by reference)<br><br>**Consultation completed** |

| Disclosure requirements in draft IFRS 18 that remain applicable | Remarks |
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| An entity shall provide a complete set of financial statements at least annually. When an entity changes the end of its reporting period and provides financial statements for a period longer or shorter than one year, the entity shall disclose, in addition to the period covered by the financial statements:<br>(a) the reason for using a longer or shorter period; and<br>(b) the fact that amounts included in the financial statements are not entirely comparable. | This is IAS 1.36 and included in the Subsidiaries Exposure Draft (by reference)<br>**Consultation completed** |
| For the purposes of this Standard, an item is an asset, liability, equity instrument or reserve, income, expense, or cash flow or any aggregation or disaggregation of such assets, liabilities, equity, income, expenses or cash flows. A line item is an item that is presented separately in the primary financial statements. Other material information about items is disclosed in the notes. Unless doing so would override specific aggregation or disaggregation requirements in IFRS Accounting Standards, an entity shall (see paragraphs B16–B23):<br>(a) classify and aggregate assets, liabilities, equity, income, expenses or cash flows into items based on shared characteristics;<br>(b) disaggregate items based on characteristics that are not shared;<br>(c) aggregate or disaggregate items to present line items in the primary financial statements that fulfil the role of the primary financial statements in providing useful structured summaries (see paragraph 16);<br>(d) aggregate or disaggregate items to disclose information in the notes that fulfil the role of the notes in providing material financial information (see paragraph 17); and<br>(e) ensure that aggregation and disaggregation in the financial statements do not obscure material information (see paragraph B3). | This is based on IAS 1.29 and 1.30A, with amendments, akin to a new requirement.<br><br>Relates to disaggregation principle and also includes definitions of items and line items. Draft BC71 includes statement that “The IASB developed these principles and other requirements in response to feedback from users of financial statements that financial statements do not always include appropriately aggregated or disaggregated information. For example, an entity might disclose in the notes a large amount of ‘other’ expenses with no information to help users of financial statements understand what expenses those items include. In |

| Disclosure requirements in draft IFRS 18 that remain applicable | Remarks |
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| | contrast, an entity might sometimes disclose too much detail, obscuring material information. "<br>Also, requirements relate to both disclosure and presentation.<br><br>**Recommend reference** |
| Applying the principles in paragraph 41, an entity shall disaggregate items whenever the resulting information is material. If, applying paragraph 41(c), an entity does not present material information in the primary financial statements, it shall disclose the information in the notes. Paragraphs B79 and B111 set out examples of income, expenses, assets and liabilities that might have sufficiently dissimilar characteristics that presentation in the statement of profit or loss or statement of financial position or disclosure in the notes is necessary to provide material information. | This will be an amendment to IAS 1.77 and 97.<br>It should be read with other requirements on disaggregation.<br>Also, requirements relate to both disclosure and presentation in primary financial statements.<br><br>**Recommend reference** |
| An entity shall label and describe items presented in the primary financial statements (that is totals, subtotals and line items) or items disclosed in the notes in a way that faithfully represents the characteristics of the item (see paragraphs B24–B26). To faithfully represent an item, an entity shall provide all descriptions and explanations necessary for a user of financial statements to understand the item. In some cases, an entity might need to include the descriptions and explanations the meaning of the terms the entity uses and information about how it has aggregated or disaggregated assets, liabilities, equity claims, income, expenses and cash flows. | Requirement mentions disaggregation.<br>Also, requirements relate to both disclosure and presentation in primary financial statements.<br><br>**Recommend reference** |
| If an entity presents one or more line items comprising expenses classified by function in the operating category of the statement of profit or loss, it shall: | Requirement is mostly about presentation in primary financial statements, with one |

| Disclosure requirements in draft IFRS 18 that remain applicable | Remarks |
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| (a) present a line item for its cost of sales in a separate line item, if the entity classifies operating expenses by functions that include a cost of sales function. That line item shall include the total of inventory expense described in paragraph 38 of IAS 2 *Inventories*.<br>(b) disclose a qualitative description of the nature of expenses included in each function line item. | follow up disclosure requirement.<br>Note the draft Basis for Conclusions on IFRS 18 says "The IASB concluded that requiring an entity to include inventory expense would help reduce diversity in the costs included in cost of sales, improving comparability between entities that present that line item. The IASB also concluded such a requirement would not be costly for an entity to apply, because IAS 2 requires an entity:<br>a. to recognise the amount of inventories as an expense in the period in which the related revenue is recognised; and<br>b. to disclose the amount of inventories recognised as an expense during the period.<br><br>**Recommend reference** |

| Disclosure requirements in draft IFRS 18 that remain applicable | Remarks |
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| An entity shall present in the statement presenting comprehensive income or disclose in the notes reclassification adjustments relating to components of other comprehensive income (see paragraphs B88–B89). | IAS 1.92 and IAS 1.94, and included in the Subsidiaries Exposure Draft (by reference).<br><br>**Consultation completed** |
| An entity disclosing reclassification adjustments in the notes shall present in the statement presenting comprehensive income the items of other comprehensive income after any related reclassification adjustments. | IAS 1.94 and included in the Subsidiaries Exposure Draft (by reference)<br><br>**Consultation completed** |
| Paragraph 23 explains that an entity need not present separately a line item in a primary financial statement if doing so is not necessary for the statement to provide a useful structured summary even if the line item is required by IFRS Accounting Standards. For example, an entity need not present a line item listed in paragraph 75 if doing so is not necessary for the statement of profit or loss to provide a useful structured summary of income and expenses, or a line item listed in paragraph 103 if doing so is not necessary for the statement of financial position to provide a useful structured summary of assets, liabilities or equity. If an entity does not present the line items listed in paragraphs 75 and 103, it shall disclose the items in the notes if they provide material information (see paragraph 42). | Sets out process if certain presentation decisions are made, with effects on disclosures.<br><br>**Recommend reference** |
| An entity often makes financial statements more understandable by providing information in thousands or millions of units of the presentation currency. This practice is acceptable as long as the entity discloses the level of rounding and does not omit material information. | IAS 1.53 and included in the Subsidiaries Exposure Draft (by reference).<br><br>**Consultation completed** |
| An entity may provide comparative information in addition to the comparative information required by IFRS Accounting Standards, as long as that information is prepared in accordance with IFRS Accounting Standards. This comparative information may consist of one or more of the primary financial statements referred to in paragraph 10, but need not comprise a complete set of financial statements. When this is the case, the entity shall disclose in the notes information for those additional primary financial statements. | The revised drafting in IFRS 18 of IAS 1.38C clarified that the final sentence is a disclosure requirement rather than a presentation requirement, but did not add to or amend the requirement. Treated as a presentation requirement in the |

<table>
<tr><th>Disclosure requirements in draft IFRS 18 that remain applicable</th><th>Remarks</th></tr>
<tr><td></td><td>Subsidiaries Exposure Draft and therefore not part of the proposed disclosure reductions. As such, it is not a new requirement.<br><br>Consultation completed</td></tr>
<tr><td>If an entity cannot find a more informative label than ‘other’:<br>…<br>(b) for an aggregation comprising only items for which information is not material—the entity shall consider whether the aggregated amount is sufficiently large that users of financial statements might reasonably question whether it includes items for which information could be material. If so, information to resolve that question is material information. Accordingly, in such cases, the entity shall disclose further information about the amount—for example:<br>(i) an explanation that no items for which information would be material are included in the amount; or<br>(ii) an explanation that the amount comprises several items for which information would not be material, with an indication of the nature and amount of the largest item.</td><td>New requirement.<br>Although possibly it could be excluded on the grounds of being mostly guidance, it is expressed as “shall”, so as a requirement.<br><br>Recommend reference</td></tr>
<tr><td>In addition, an entity presents on a net basis gains and losses arising from a group of similar transactions, for example, foreign exchange gains and losses or gains and losses arising on financial instruments held for trading that are included in the same category of the statement(s) of financial performance in accordance with paragraphs 47–68. However, an entity shall disclose such gains and losses separately in the notes if doing so provides material information.</td><td>The revised IFRS 18 drafting of IAS 1.35 makes the final sentence more of a disclosure requirement but did not add to or amend the requirement. Treated as a presentation requirement in the Subsidiaries Exposure Draft and therefore not part of the proposed disclosure reductions. As such, it is not a new requirement.</td></tr>
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| | **Consultation completed** |