IASB ISSUES IFRS 19 SUBSIDIARIES WITHOUT PUBLIC ACCOUNTABILITY: DISCLOSURES

- **Background**

When a parent company prepares consolidated financial statements that comply with IFRS® Accounting Standards, its subsidiaries are required to report to the parent using IFRS Accounting Standards. For their own financial statements, subsidiaries are permitted to use IFRS for SMEs® Accounting Standard* if they meet the eligibility criteria or another national financial reporting standard. However, such subsidiaries may not opt to apply the IFRS for SMEs Accounting Standard as they are already required to report to their parent entities using IFRS Accounting Standards and the IFRS for SMEs Accounting Standard differs significantly from 'full' IFRS Accounting Standards, which may result in the subsidiary being required to maintain two sets of financial records. When subsidiaries apply IFRS Accounting Standards for their own financial statements, they are required to provide the disclosures required by IFRS Accounting Standards, which may be disproportionate to the information needs of their users.

* IFRS for SMEs® Accounting Standard has not been adopted by the Thai Federation of Accounting Professions.

Consequently, on 9 May 2024, the International Accounting Standards Board (IASB) issued IFRS 19 Subsidiaries without Public Accountability: Disclosures (the Standard).

Accounting Impact:

Subsidiaries meeting the specified eligibility criteria may elect to apply reduced disclosure requirements as compared to the disclosure requirements of IFRS Accounting Standards while complying with the recognition, measurement and presentation requirements in IFRS Accounting Standards.

Status: Final

- **Requirements of IFRS 19**

Application of IFRS 19 is voluntary. The eligibility criteria are:

- The entity is a subsidiary (as defined in Appendix A of IFRS 10 Consolidated Financial Statements).
- The entity does not have public accountability; and
- The entity has an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Accounting Standards.

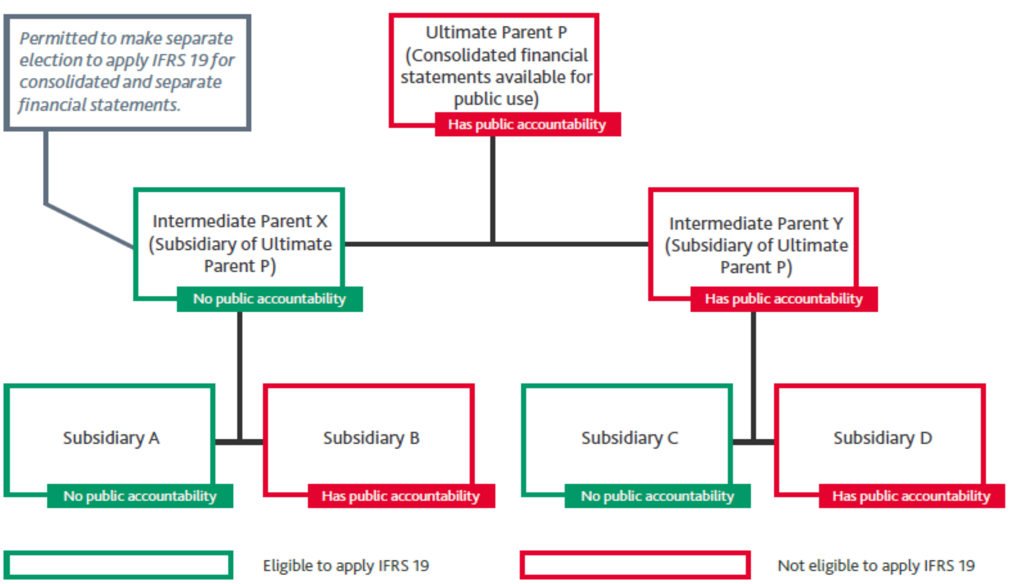
An entity has public accountability if:

- 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; or
- It holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.

An entity is permitted to elect to apply IFRS 19 more than once. An entity that applied IFRS 19 in a prior period but not in the immediately preceding period may elect to apply it in the current period.

An entity that has elected to apply IFRS 19 may later revoke that election.

The following diagram shows an example of a group of entities, some of which are eligible to apply IFRS 19. (All entities in the group currently prepare individual/ separate/ consolidated financial statements that comply with IFRS Accounting Standards.)



Out of all the entities in the group that are subsidiaries; Intermediate Parent Y, Subsidiary B and Subsidiary D have public accountability and therefore, are not eligible to apply IFRS 19.

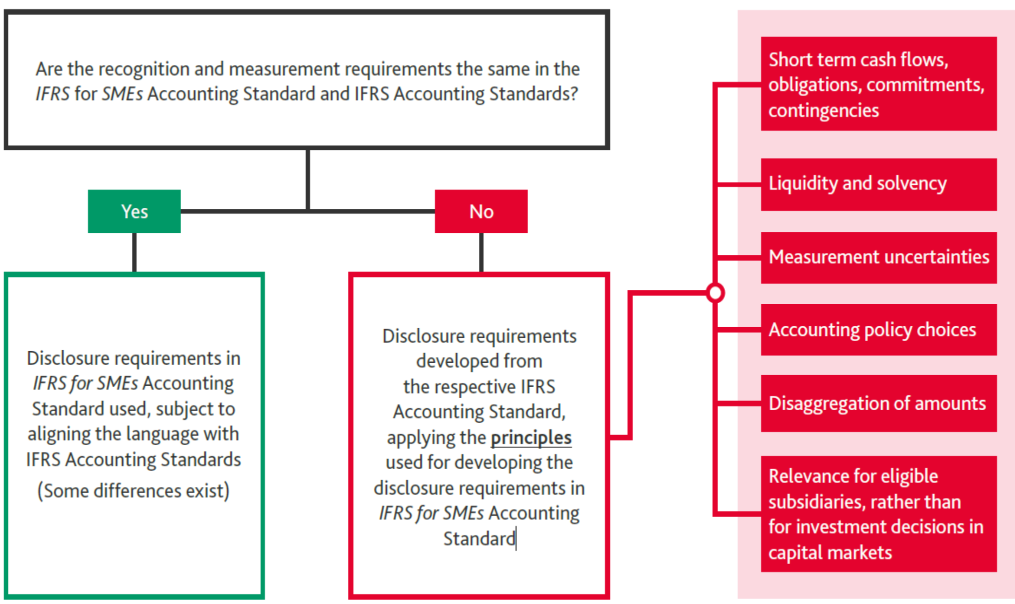
Intermediate Parent X, Subsidiary A and Subsidiary C do not have public accountability. These entities are subsidiaries, and they have an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Accounting Standards. Therefore, these entities are permitted to elect to apply IFRS 19.

Intermediate Parent X is permitted to make separate election to apply IFRS 19 for its separate and consolidated financial statements.

It should be noted that if a group of entities is located in a jurisdiction where it is required to apply IFRS Accounting Standards, but the ultimate or intermediate parents in the group are not publicly accountable and their financial statements are not available for public use, the subsidiaries or intermediate parents will not be able to apply IFRS 19.

The structure of IFRS 19 and the approach followed by the IASB in developing the disclosure requirements

In developing the disclosures in IFRS 19 relating to each IFRS Accounting Standard, the IASB adopted the following approach:



- *If the recognition and measurement requirements <u>were the same</u> in the IFRS for SMEs Accounting Standard and IFRS Accounting Standards, the disclosure requirements in the IFRS for SMEs Accounting Standard are <u>used in IFRS 19</u>*
- *If recognition and measurement requirements in the IFRS for SMEs Accounting Standard <u>differed from those</u> in IFRS Accounting Standards, disclosure requirements in IFRS 19 were developed directly from IFRS Accounting Standards, applying the principles used for <u>developing the disclosure requirements in the IFRS for SMEs Accounting Standard.</u>*

Disclosure requirements from IFRS Accounting Standards that continue to apply

The Standard does not provide reduced disclosure requirements for IFRS 8 Operating Segments, IFRS 17 Insurance Contracts and IAS 33 Earnings per Share. If an entity electing to apply IFRS 19 is required to or elects to apply IFRS 8, IFRS 17 or IAS 33, the entity is required to apply all the disclosure requirements in those Standards.

Some disclosure requirements in IFRS Accounting Standards remain applicable to entities applying IFRS 19. Such disclosure requirements are specified under the subheading of each IFRS Accounting Standard.

Some of the reasons for the IASB to conclude on retaining the applicability of these disclosure requirements were:

- The disclosure requirements are easier for preparers to consider because the paragraphs that follow them contain requirements about their application.
- The disclosure requirements are embedded in paragraphs that include recognition, measurement or presentation requirements; and
- The disclosure requirements use the term 'disclosure' in a broad sense, encompassing items presented in the primary financial statements.

Application of disclosure requirements referred to in other than disclosure paragraphs of other IFRS Accounting Standards

In some cases, paragraphs other than disclosure paragraphs of IFRS Accounting Standards contain statements about or references to the disclosure requirements. An entity applying IFRS 19 is not required to apply such statements or references to the disclosure requirements in other IFRS Accounting Standards, unless specifically required by IFRS 19. For example, IAS 12.35 contains requirements about the criteria for recognising a deferred tax asset arising from the carryforward of unused tax losses and tax credits. But it also refers to IAS 12.82 which provides the disclosure requirements in such circumstances. For an entity applying IFRS 19, the disclosure requirements in IAS 12.82 are not applicable. Such an entity is not required to apply the statement at the end of IAS 12.35 about IAS 12.82.

Materiality considerations and additional disclosures in accordance with IFRS 18 Presentation and Disclosure in Financial Statements

IFRS 18 Presentation and Disclosure in Financial Statements, issued by the IASB in April 2024, replaced IAS 1 Presentation of Financial Statements. IFRS 18.19 permits an entity to not provide a specific presentation or disclosure if the information resulting from that presentation or disclosure, is not material. This requirement also applies to the disclosure requirements in IFRS 19, meaning that an entity applying IFRS 19 need not provide a specific disclosure required by the Standard if the information resulting from that disclosure would not be material.

Comparative information

An entity that applies IFRS 19 in the current reporting period but not in the immediately preceding period is required to provide comparative information for all amounts reported in the current period's financial statements, unless IFRS 19 or another IFRS Accounting Standard permits or requires otherwise.
An entity that applied IFRS 19 in the preceding reporting period but elects not to (or is no longer eligible to) apply it in the current period and continues applying IFRS Accounting Standards, is required to provide comparative information with respect to the preceding period for all amounts reported in the current period's financial statements, unless another IFRS Accounting Standard permits or requires otherwise.

- **Effective Date:**
  IFRS 19 is effective for annual reporting periods beginning on or after 1 January 2027 with earlier application permitted.

- **Transition Requirements**

Interaction with IFRS 1 First-time Adoption of International Financial Reporting Standards

IFRS 19.21-30 provide the reduced disclosure requirements for IFRS 1 First-time Adoption of International Financial Reporting Standards that an entity is required to apply if it elects to apply IFRS 19 when it prepares its first financial statements in accordance with IFRS Accounting Standards.
Electing or revoking an election to apply IFRS 19 does not, on its own, result in an entity meeting the definition of a first-time adopter of IFRS Accounting Standards in IFRS 1.

The following diagram depicts various scenarios of application of IFRS 19 and the requirement to apply IFRS1.

Scenario	Year 1	Year 2	Requirement
1	Entity applies IFRS for SMEs Accounting Standard	Entity applies IFRS Accounting Standards and elects to apply IFRS 19	In the financial statements for Year 2, the entity would: - apply IFRS 1 - provide disclosures required by IFRS 19, including for comparative information.
2	Entity applies IFRS Accounting Standards, but not IFRS 19	Entity applies IFRS Accounting Standards and elects to apply IFRS 19	In the financial statements for Year 2, the entity would: - not apply IFRS 1 - provide disclosures required by IFRS 19, including for comparative Information.
3	Entity applies IFRS Accounting Standards, and IFRS 19	Entity continues to apply IFRS Accounting Standards, but revokes the election to apply IFRS 19	In the financial statements for Year 2, the entity would: - not apply IFRS 1 - provide disclosures required by IFRS Accounting Standards, including for comparative information.

Interaction with IFRS 18

IFRS 18, issued by the IASB in April 2024, replaced IAS 1. IFRS 18 is effective for annual reporting periods beginning on or after 1 January 2027, with earlier application permitted. Thus, both IFRS 18 and IFRS 19 are effective for annual reporting periods beginning on or after 1 January 2027, with earlier application permitted.

An entity may elect to apply IFRS 19 before it applies IFRS 18, subject to endorsement in an entity's jurisdiction, if applicable. Appendix B of IFRS 19 provides the reduced disclosure requirements from IAS 1 that an entity is required to apply if it applies IFRS 19 before applying IFRS 18.

Interaction with IAS 8 Basis of Preparation of Financial Statements with respect to changes in accounting policies

The requirements for changes in accounting policies in IAS 8 do not apply to electing or revoking an election to apply IFRS 19.

The requirement to provide a third statement of financial position

IFRS 18.37 requires an entity to present a third statement of financial position as at the beginning of the preceding period if:

a. it applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements; and

b. the retrospective application, retrospective restatement or reclassification has a material effect on the information in the statement of financial position as at the beginning of the preceding period.

The IASB, in its deliberations, decided that the requirements in IAS 8 related to changes in accounting policies would not apply to a subsidiary's election to apply IFRS 19 or to the revocation of that election (Basis for Conclusions - BC103). The IASB also noted that applying IFRS 19 does not change the recognition or measurement of items or amounts presented in the primary financial statements (Basis for Conclusions - BC104). Therefore, an entity that elects or revokes the election to apply IFRS 19 is not required to present a third statement of financial position as at the beginning of the preceding period.

This article was summarised from the BDO IFR Bulletin 2024/06 published in May 2024.

Remark: The IASB is proposing amendments to IFRS 19 relating to IFRS 18 Presentation and Disclosure in Financial Statements, including amendments introduced by Non-current Liabilities with Covenants, IAS 7 Statement of Cash Flows, as amended by Supplier Finance Arrangements, IAS 12 Income Taxes, as amended by International Tax Reform—Pillar Two Model Rules, and IAS 21 The Effects of Changes in Foreign Exchange Rates, as amended by Lack of Exchangeability. The proposed amendments would reduce the disclosure requirements in IFRS 19. In particular, eligible subsidiaries might benefit from cost savings if they (a) have non-current liabilities with covenants; (b) participate in supplier finance arrangements; (c) are subject to Pillar Two income taxes; or (d) account for transactions and balances in a currency that is not readily exchangeable. The IASB will consider the comments received and decide whether to proceed with the proposed amendments to IFRS 19. The dateline for comments is on 27 November 2024.

If you have any questions about the information in this newsletter, please speak to your usual BDO contact or get in touch with BDO in Thailand's IFRS team at ifrsthailand@bdo.th