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19 November 2024

Dear IASB members,

Invitation to comment – Exposure Draft: Amendments to IFRS 19 Subsidiaries without Public Accountability: Disclosures

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the International Accounting Standards Board's (IASB or the Board) Exposure Draft IASB/ED/2024/5 Amendments to IFRS 19 *Subsidiaries without Public Accountability: Disclosures* (the ED).

Overall, we agree with the need to consider the new and/or amended IFRS accounting standards issued between 28 February 2021 and 1 May 2024, based on the principles set out in IFRS 19.BC33 to determine whether new or amended disclosure requirements being proposed as part of IFRS accounting standards provide useful information to users of financial statements of eligible subsidiaries and, thus, whether to include those disclosures in IFRS 19.

While we agree that the six principles described in IFRS 19.BC33 are useful in providing a framework in which new disclosures can be considered, we find it difficult to comment on the appropriateness of the proposed disclosures brought into IFRS 19, as the Basis for Conclusions to the ED does not always articulate how the IASB has applied the criteria in IFRS 19.BC33 to the proposed disclosures. For example, liquidity risk disclosures are included within IFRS 19, but the same disclosures have not been incorporated into the *IFRS for SMEs* accounting standard (*IFRS for SMEs*). IFRS 19.BC33 notes that users of the financial statements of eligible subsidiaries are particularly interested in information about liquidity and solvency. However, it is unclear how this disclosure would be more applicable to the user needs in relation to the financial statements of an entity that applies IFRS 19 than it would be to the needs of users of financial statements prepared under *IFRS for SMEs*. Similar concerns apply to credit risk and IFRS 12 disclosures that are not included / proposed for *IFRS for SMEs*.

Entities that are eligible to apply IFRS 19 are a subset of those entities eligible to apply *IFRS for SMEs*, and so naturally have a smaller 'pool' of users. Eligible entities report to a parent entity and possibly non-controlling shareholders, while SMEs applying *IFRS for SMEs* are potentially stand-alone entities with a wider range of users that rely on the general purpose financial statements for their information needs. We would therefore expect that, in applying IFRS 19.BC33, the disclosure requirements for eligible entities with a smaller base of users would result in the same, or reduced, disclosures compared to those for an entity applying *IFRS for SMEs*.

We believe that the proposed removal of disclosure objectives is aligned with the IASB's approach set out in IFRS 19.BC50 and does not detract from the disclosure requirements set out in the standard. The overarching requirement in IFRS 19.6 serves a similar purpose to the disclosure objectives in requiring additional disclosures when they are needed for users to understand a particular transaction or other event and condition.

In general, we support the inclusion of explanatory text and illustrative examples from other IFRS accounting standards if they are directly related to disclosures. The inclusion of such explanations and examples in IFRS 19 would be useful to users as it would reduce the need to refer back to the other IFRS accounting standards when considering disclosures. An example of such guidance is the IAS 12 illustrative examples of disclosures related to Pillar 2 Taxes (refer to the response in Question 3). Any explanatory text from other IFRS accounting standards which is not related to disclosures should not be included in IFRS 19 since users are required to look to other IFRS accounting standards for the recognition, measurement and presentation requirements (refer to the response in Question 2).

We support the proposal to align the effective dates of IFRS 19 and the ED so that preparers can benefit from the proposed reduced disclosures upon initial application of IFRS 19 and not incur costs gathering information for disclosure requirements that will be reduced in the future if the effective dates are not aligned.

Should you wish to discuss the contents of this letter with us, please contact Michiel van der Lof at the above address, or on :+ 31 6212 52634 .

Yours faithfully

Ernst + Young Global Limited

Appendix – Detailed responses to specific questions

Question 1– Presentation and disclosure in financial statements (proposed amendments to paragraphs 137, 142–159 and 163 of IFRS 19, paragraph A3 in Appendix A of IFRS 19 and paragraph B8 of Appendix B of IFRS 19)

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

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

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

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

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

We agree with the Board's view that eligible entities are less likely to use management-defined performance measures (MPMs) than other entities. Entities that are eligible to apply IFRS 19 do not have public accountability, and so would not be expected to make use of public communications outside their financial statements. MPMs are a means of communicating financial performance to users of financial statements outside the financial statements. BC12 notes "A subsidiary provides information to its parent for the parent to prepare consolidated performance measures. Unless the subsidiary itself uses those measures in public communications outside financial statements to communicate an aspect of its financial performance, the information provided to the parent does not meet the definition of a management-defined performance measure." The nature of the information provided to a parent to prepare consolidated performance measures is unlikely to be made publicly available if an entity does not have public accountability.

We, therefore, agree that the precedent set out in BC13 regarding the application of IFRS 8 *Operating Segments* is similar and appropriate to apply for the disclosure of MPMs. The precedent is that eligible entities applying IFRS 19 are not required to provide segment information as set out in IFRS 8 (since, by their nature, entities without public accountability would not be required to present segment disclosure) but, if they choose to do so, they are required to comply with the disclosure requirements in IFRS 8.

However, we believe that the precedent has not been consistently applied with regard to MPMs. The ED proposes that eligible entities that use MPMs are required to apply the related disclosure requirements in IFRS 18. This will necessitate all eligible entities to evaluate if they present any MPMs and are, therefore, subject to these requirements. The assessment itself, even if no MPMs are found, will need to be performed periodically to identify changes in the use of subtotals/MPMs (IFRS 18.B131) and will require cost and effort, despite the majority of eligible entities not being expected to have MPMs. Therefore, we believe that similar to the requirements of IFRS 8, eligible entities that make use of MPMs should have a choice as to whether they include MPM disclosures in their financial statements. Should they choose to make these disclosures, then we agree that the IFRS 18 disclosure requirements for MPMs should apply.

We believe that the additional disclosures required by IFRS 18.83 on the nature of expense items when the entity uses the 'by function' method of presentation of expenses in the statement of profit or loss should be considered for removal for the purposes of IFRS 19 disclosure requirements. Industry feedback indicates that entities that currently use the 'by function' method do not have accounting systems to generate that information, and we are not convinced that the associated benefits to users will outweigh the cost of preparing the information.

The removal of the disclosure objective is aligned with the IASB's approach set out in IFRS 19.BC50 and we agree that it does not impact the disclosure requirements set out in IFRS 19.137.

Question 2—Supplier finance arrangements (proposed amendments to paragraphs 167–168 of IFRS 19)

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

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

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

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

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

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

While the inclusion of explanatory text in 167A would be helpful in part to eligible entities in understanding the characteristics of supplier finance arrangements, it is not clear on what basis the Board decided to include this paragraph but not other similarly useful explanatory text. We note

further that entities applying IAS 7's disclosure requirements for supplier finance arrangements also need to look to the Basis for Conclusions of IAS 7 (BC31- BC33) to further understand the scoping of supplier finance arrangements as envisaged by IAS 7. We believe that without the inclusion of the information provided in the Basis for Conclusions, the explanatory text in IFRS 19.167A is less useful on its own, and eligible entities will need to continue to look to the Basis for Conclusions of IAS 7 to fully understand the scoping of supplier finance arrangements.

Paragraph 2 of IFRS 19 indicates that "An entity electing to apply this Standard applies the requirements in other IFRS accounting standards, except for the disclosure requirements. Instead, the entity applies the requirements in this Standard." We would expect that the norm would be for eligible entities applying IFRS 19 to look to the other IFRS accounting standards for explanatory guidance on topics that are not disclosure related, while IFRS 19 provides the disclosure requirements. We believe that additional explanatory text from the other IFRS accounting standards should only be included in IFRS 19 if it provides guidance specific to the disclosure requirements. We, therefore, do not believe that additional information related to the scoping of supplier finance arrangements (or any other explanatory guidance not related to disclosure) should be included within IFRS 19.

We believe that the disclosure requirements of IFRS 19.168(b)(ii) should be considered for removal from IFRS 19. We are concerned that obtaining the information necessary to meet the proposed requirements could be challenging in many cases, because of the reliance on obtaining information from a third party (i.e., the finance provider) which may be restricted (by data protection regulation/legislation) from sharing this information. To comply with the requirements proposed in IFRS 19.168(b)(ii), entities will have to establish a system to allow for collection of the required information, which could involve cooperation from a third-party bank/financial institution, but the entity might not be in a position to demand such information. The cost and effort required of an eligible entity in developing such a system may be significant, and we are not convinced that the associated benefits to users will outweigh these costs.

We have not proposed the removal of paragraph 168(b)(iii) as it provides information on how supplier finance arrangements impact the liquidity risk of an entity, and information on liquidity is specifically identified by IFRS 19.BC33 as useful to users. However, as noted in the general comment above, it is not clear how this principle has been applied, as there is no proposed liquidity risk disclosure within *IFRS for SMEs*, and BC33 indicates that the same principles were applied for *IFRS for SMEs*.

Question 3– International tax reform–Pillar Two model rules (proposed amendments to paragraphs 198–199 of IFRS 19)

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

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

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

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

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

Please explain your reasons.

We agree that the removal of the reference to the disclosure objective does not detract from the disclosure requirements set out in IFRS 19.196–199.

We note that IAS 12 provides an illustrative example of the type of quantitative information an entity could disclose to meet the objective and requirements in IAS 12.88C–88D. While the proposed amendments remove the reference to the disclosure objective, the example remains useful to a preparer in providing quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. We recommend that this illustrative example is included within IFRS 19. This would be in keeping with the general principle noted above regarding the inclusion of explanatory guidance and illustrative examples that relate specifically to disclosure – the inclusion of such examples in IFRS 19 would reduce the cross referring between IFRS accounting standards when applying the disclosure requirements of IFRS 19.

Question 4 - Lack of exchangeability (proposed amendments to paragraphs 221–223 of IFRS 19)

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

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

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

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

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

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

We agree that the removal of the reference to the disclosure objective currently included in IFRS 19.221 does not detract from the disclosure requirements in IFRS 19.221 – .223.

We believe that the IFRS 19.223(a) – (e) disclosures are beneficial to users in understanding how an entity is impacted by a currency that is not exchangeable. The required information would already need to be available to the preparer in order to apply the IAS 21 accounting, and therefore, would not have a significant cost to develop. However, we consider IFRS 19.223 (f) to be more onerous for a preparer to develop and should be considered for removal from IFRS 19.

<p>Question 5—Financial instruments classification and measurement (no changes proposed)</p> <p>Paragraphs 56A–56D of IFRS 19 were added due to Amendments to the Classification and Measurement of Financial Instruments issued in May 2024. The paragraphs contain disclosure requirements relating to the effect of contractual terms that could change the amount of contractual cash flows as a result of a contingent event that does not directly relate to basic lending risks and costs (such as the time value of money or credit risk).</p> <p>The amendments to IFRS 19 were made without reducing the disclosure requirements. Having considered the amendments, the IASB proposes not to reduce the disclosure requirements because they provide users of eligible subsidiaries’ financial statements with information about short-term cash flows and obligations, as well as solvency and liquidity.</p> <p>Paragraphs BC27–BC31 of the Basis for Conclusions on this Exposure Draft explain the IASB’s rationale for this proposal.</p> <p>Do you have comments or suggestions on the proposal not to reduce the disclosure requirements introduced by the amendments to IFRS 7 issued in May 2024? Please explain your reasons.</p>

IN4 indicates that this ED covers new or amended IFRS accounting standards “issued between 28 February 2021 and 1 May 2024”. The IFRS 9 related amendments were only issued on 30 May 2024 and therefore we believe that paragraphs BC27-31 should be removed, as they relate to an amendment that falls outside of the time scoping in IN4.

Despite this discrepancy with IN4, overall, we agree that the proposed disclosures provide information that is relevant to users of the financial statements, particularly in cases where the users are lenders / outside parties that are not able to demand this decision-useful information if it is not included within the general purpose financial statements. However, we believe that IFRS 19.56B(b) should rather refer to “reasonably possible” changes that could have a material impact on recognised balances. This would be less all-encompassing information and would be more easily obtainable, while still providing useful information to users.

Reference to paragraphs 56A – 56D of IFRS 19 should rather be to paragraphs 56A – 56C; we would infer that the reference to 56D is a drafting error in the ED as the amendments to IFRS 19 only include 56A – 56C.

Question 6– Regulatory assets and regulatory liabilities

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

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

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

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

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

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

Notwithstanding the discrepancy with IN4 noted in response to Question 5, which also applies to Question 6 as the RARL Standard has not yet been issued, we note that in certain jurisdictions or areas, such as many countries in Europe, regulated entities and groups are often subject to the unbundling principle whereby the activities in the group subject to rate regulations are assigned to a distinct legal entity in the group. Where this is the case, we believe that presenting a full set of disclosures at the regulated entity level, i.e., at the subsidiary level, provides users with relevant information.

Accordingly, we agree with the IASB's view set out in BC35 that the disclosure requirements generally appear necessary to support the new model. Therefore, we also agree with the IASB's conclusion that removing objectives and guidance at this stage would not significantly reduce costs for preparers of financial statements.