Introducing IFRS 19 Subsidiaries without Public Accountability: Disclosures

Effective date

IFRS 19 was issued in May 2024 and is effective for the annual reporting period beginning on or after 1 January 2027. Earlier application is permitted.

Voluntary application

Application of IFRS 19 is on a voluntary basis, an entity may elect to apply it or not. Election of application can be done more than once thus it can differ from one reporting period to another. This means that it is possible for an entity to have applied IFRS 19 in a prior period (say 20X1), elected not to apply it in the immediately preceding year (say 20X2) and elected to apply it in the current period (say 20X3).

What is the objective of IFRS 19?

The overall objective of IFRS 19 is to reduce the disclosure compliance burden on eligible entities while still providing users of financial statements with relevant information for their decision-making needs.

When preparing IFRS-compliant consolidated financial statements, subsidiaries are required to report to the parent using IFRS Accounting Standards.

In practice you find that the subsidiaries that use IFRS for SMEs Accounting Standard or national accounting standards usually prepare two sets of accounting records i.e. One set for their own financial statements and another set using IFRS accounting standards for consolidation purposes.

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IFRS 19 addresses this challenge by enabling subsidiaries to apply IFRS Accounting Standards with reduced disclosures. Subsidiaries can thus keep only one set of accounting records that meets the needs of both their parent company and the users of their financial statements.

By allowing entities to apply reduced disclosure requirements, IFRS 19 aims to strike a balance between reducing costs and maintaining transparency in financial reporting.

Eligibility Criteria

An entity may elect to apply IFRS 19 in its consolidated, separate or individual financial statements if it meets all the three conditions below:

It is a subsidiary i.e. it is controlled by another entity.
It does **not** have public accountability.
It 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:

a) its debt or equity instruments are traded in a public market, or it is in the process of issuing such instruments for trading in a public (or)
b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.

Most often banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks have public accountability as they hold assets in a fiduciary capacity as part of their primary businesses. Thus, these entities are not eligible to apply IFRS 19.

Entities applying IAS 26 Accounting and Reporting by Retirement Benefit Plans do not meet the 'not have public accountability' criterion and are therefore not eligible to apply IFRS 19.

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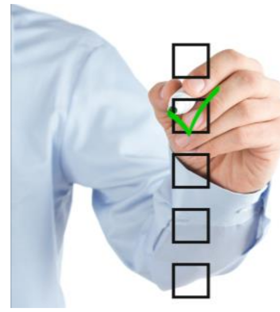
What does IFRS 19 entail?

IFRS 19 specifies reduced disclosure requirements that an eligible entity is permitted to apply instead of the disclosure requirements in other IFRS Accounting Standards.

The disclosure requirements in IFRS 19 are organized into subsections relating to each IFRS Accounting Standard.



Subsidiaries meeting the specified eligibility criteria may elect to apply the reduced disclosure requirements as compared to the disclosure requirements of IFRS Accounting Standards. These subsidiaries, however, are required to still apply the recognition, measurement and presentation requirements in the other IFRS Accounting Standards.

Example: ***An eligible subsidiary that elects to apply IFRS 19***

Accounting and reporting items on IAS 16 *Property, Plant and Equipment*	
Recognition, measurement and presentation requirements	*Apply the relevant IFRS Accounting Standard; in this instance applies IAS 16 Property, Plant and Equipment.*
Disclosure requirements	Instead of applying disclosures under IAS 16, apply the disclosure requirements in IFRS 19, under the subheading 'IAS 16 *Property, Plant and Equipment*'.

Some disclosure requirements in other IFRS Accounting Standards remain applicable to an entity applying IFRS 19, these disclosures are specified in IFRS 19 under subsections relating to each IFRS Accounting Standard.

Exceptions

IFRS 19 specifies reduced disclosure requirements for IFRS accounting standards with exception of: IFRS 8 *Operating Segments*, IFRS 17 *Insurance Contracts* and IAS 33 *Earnings per Share*. This is generally because entities applying these standards would be at most times publicly accountable and further the interests of users of its financial statements might be best served by full disclosures of material information.

Therefore, if an entity elects to apply IFRS 19, and still applies the above 3 standards, it is required to apply all the disclosure requirements in those Standards.

Comparative period

As mentioned earlier, an entity that elects to apply IFRS 19 in one reporting period may later revoke that election. 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.

Statement of compliance with IFRS Accounting Standards

An entity that applies IFRS 19, and its financial statements comply with IFRS Accounting Standards, including the requirements in IFRS 19, is required to make an explicit and unreserved statement of its compliance in the notes. As part of that unreserved statement, the entity is required to state that it has applied IFRS 19 standard.

References

IFRS Foundation. Effect Analysis - IFRS 19 Subsidiaries without Public Accountability: Disclosures [May 2024]