UKEB
UK Endorsement Board

Dr Andreas Barckow
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XX November 2024

Dear Dr Barckow

Exposure Draft IASB/ED/2024/5 Amendments to IFRS 19 *Subsidiaries without Public Accountability: Disclosures*

1. The UK Endorsement Board (UKEB) is responsible for endorsement and adoption of IFRS Accounting Standards for use in the UK and therefore is the UK's National Standard Setter for IFRS Accounting Standards. The UKEB also leads the UK's engagement with the IFRS Foundation on the development of new standards, amendments and interpretations. This letter is intended to contribute to the Foundation's due process. The views expressed by the UKEB in this letter are separate from, and will not necessarily affect the conclusions in, any endorsement and adoption assessment on new or amended international accounting standards undertaken by the UKEB.

2. There are currently approximately 1,500 entities with equity listed on the London Stock Exchange that prepare their financial statements in accordance with IFRS.[1] In addition, UK law allows unlisted companies the option to use IFRS and approximately 14,000 such companies currently take up this option.[2]

3. We welcome the opportunity to provide comment on the International Accounting Standards Board (IASB) Exposure Draft (ED) Amendments to IFRS 19 *Subsidiaries without Public Accountability: Disclosures* (the Amendments). In developing this letter, we have consulted with stakeholders in the UK, including preparers, accounting firms and institutes and users of accounts.

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[1] UKEB calculation based on LSEG and Eikon data, May 2024. This calculation includes companies listed on the Main market as well as on the Alternative Investment Market (AIM).

[2] UKEB estimate based on FAME, Company Watch and other proprietary data.

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4. We support the IASB's objective in developing the Amendments as well as the timely publication of the ED, and are broadly supportive of the proposals. We consider it important to amend IFRS 19 to address disclosure requirements in new or amended IFRS Accounting Standards issued between 28 February 2021 and 1 May 2024 that were not addressed when IFRS 19 was issued in May 2024.

5. Our main observations and recommendations are set out in the paragraphs that follow. Responses to the IASB's specific questions about the ED are included in the Appendix to this letter.

Main comments on the ED proposals

6. We support the principles the IASB used in considering reduced disclosure requirements for IFRS 19 and in maintaining the standard. In assessing the needs of users of financial statements of eligible subsidiaries, we agree that these users are likely to be focused on these principles i.e. information about short-term cash flows, liquidity, measurement uncertainties, disaggregation of amounts in the financial statements and accounting policy choices.

7. However, the broad nature of these principles means that IFRS 19 and the Amendments offer relatively few reductions in required disclosures. In line with our comments on the development of IFRS 19[3], to maintain the attractiveness of the standard and to meet the objective of a reduced disclosure framework, we encourage the IASB to give greater consideration to proportionality to ensure that the disclosure requirements are not excessive for subsidiaries that are not publicly accountable.

8. The proposed requirement that an entity applying IFRS 19 and the forthcoming IFRS Accounting Standard *Regulatory Assets and Regulatory Liabilities* (RARL Standard) should be required to apply all the disclosure requirements in the forthcoming RARL Standard, set out in Table 1 of the ED, is inconsistent with the objective of IFRS 19. Reduced disclosures should be in place by the effective date of the forthcoming RARL Standard and we therefore recommend the IASB consults on reduced disclosures once that standard has been finalised. Our detailed comments in relation to the forthcoming RARL Standard are in paragraphs A16—A19 of the Appendix.

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[3] The UKEB comment letter on the ED for IFRS 19 can be found here.

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Timeline for finalisation of the Amendments

9. The UKEB plans to start its formal endorsement project in early 2025 to assess both IFRS 19 and the final amendments resulting from this ED as a package for adoption. We encourage the IASB to finalise the amendments to IFRS 19 as soon as practicable. This will enable eligible subsidiaries to implement the amended IFRS 19 without delay, subject to the UKEB decision on adoption of the standard for use in the UK.

10. If you have any questions about this response, please contact the project team at UKEndorsementBoard@endorsement-board.uk.

Yours sincerely

Pauline Wallace
Chair
UK Endorsement Board

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Appendix A: Questions on ED Amendments to IFRS 19 *Subsidiaries without Public Accountability: Disclosures*

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?

A1. We support replacing the disclosure requirements for management-defined performance measures (MPMs) in IFRS 19 with a cross-reference to the paragraphs in IFRS 18 *Presentation and Disclosure in Financial Statements* that contain these disclosures i.e. to require an eligible subsidiary to disclose information about these measures if it uses them. We consider this is a pragmatic solution to improve the accessibility of the standard i.e. avoiding adding length to the standard for disclosure requirements that are expected to be rarely applicable.

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A2. Consistent with the IASB's rational, we expect eligible subsidiaries that use MPMs to be rare. When an eligible subsidiary chooses to use MPMs, however, we recognise that all the disclosure requirements of IFRS 18 are appropriate.

A3. Removal of the disclosure objective in paragraph 137 of IFRS 19 relating to non-current liabilities with covenants is consistent with the IASB's previous decision not to include disclosure objectives in IFRS 19 and we support the reasoning behind this decision[4].

A4. We also support the IASB's approach of not revisiting decisions relating to those disclosure requirements that were carried forward into IFRS 18 or relocated to another standard unchanged. Given that the IASB has already consulted on those disclosure requirements we agree that a reconsideration of those decisions is not warranted.

A5. We support retaining most of the new and amended disclosure requirements from IFRS 18. However, to ensure paragraph 136 of IFRS 19 includes only disclosure requirements, we recommend modifying the wording of this paragraph as indicated below.

> An entity will either present expenses by nature, or applying paragraph 133, disclose some expenses by nature. ~~The amounts presented or disclosed need not be the amounts recognised as an expense in the period. They could include amounts that have been recognised as part of the carrying amount of an asset.~~ If an entity~~:~~
>
> ~~(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 Inventories, an entity might present a line item for changes in inventories of finished goods and work in progress.~~
>
> ~~(b)~~ discloses, applying paragraph 133(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.

[4] The IASB decided that including such objectives in IFRS 19 might result in the perception that entities are required to provide the same disclosures they would otherwise have provided had they not applied IFRS 19. Such an outcome would be contrary to the project objective.

A6. We also recommend the following changes to paragraph 163 of IFRS 19, which lists disclosure requirements in IFRS 18 that remain applicable by cross-reference:

Cross reference—paragraph of IFRS 18	UKEB recommendation	UKEB rationale
Paragraphs 19 and 20	Delete cross references	The content of these two paragraphs is already covered in paragraphs 5 and 6 of IFRS 19. Therefore, these cross-references lead to duplication and potential unnecessary confusion.
Paragraph 28	Replace the paragraph cross reference with the actual disclosure requirements within IFRS 19 under the sub-heading IFRS 18 *Presentation and Disclosure in Financial Statements*	Apart from the first sentence this paragraph contains only disclosure requirements[5]. It is therefore not clear why this disclosure requirement is included by cross-reference.
Paragraph 43	Delete cross references	We consider that these paragraphs contain guidance and presentation requirements rather than specific disclosure requirements.
Paragraph 92		
Paragraph B8		Whilst this paragraph sets out the process if certain presentation decisions are made, with effects on disclosure, it does not include specific disclosure requirements.

5 Paragraph 28 of IFRS 18 states: 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:
(a) the reason for using a longer or shorter period; and
(b) the fact that amounts included in the financial statements are not entirely comparable.

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.

A7. We agree with the removal of the disclosure objective in paragraph 167 of IFRS 19 as this is consistent with the IASB's previous decision not to include disclosure objectives in IFRS 19.

A8. However, we do not support adding the description of supplier finance arrangements in IFRS 19 because:

a) IFRS 19 is a standalone disclosure standard and eligible subsidiaries applying the standard will apply the recognition, measurement and presentation requirements in IFRS Accounting Standards. Therefore, reproducing this description is unnecessary.

b) In general, IFRS 19 does not include definitions which are similar to this description e.g. definition of fair value.

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A9. We acknowledge that the disclosure requirement in paragraph 168b(ii) relating to financial liabilities that are part of a supplier finance arrangement and for which suppliers have already received payment from the finance providers may provide useful information to users of financial statements. However, preparers have expressed concerns about the burden imposed by this disclosure requirement. We suggest that in finalising the Amendments the IASB provides more explanation in the Basis for Conclusions of how the benefits outweigh the costs of this disclosure in the context of eligible subsidiaries[6].

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.

A10. We agree with the removal of the disclosure objective in paragraph 198 of IFRS 19 as this is consistent with the IASB's previous decision not to include disclosure objectives in IFRS 19. We agree that the disclosure requirements in paragraphs 196-199 of IFRS 19 are sufficient and clear.

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[6] In the *Amendments to FRS 101 Reduced Disclosure Framework – 2023/24 cycle*, the UK's FRS 101 provides an unconditional disclosure exception from this disclosure requirement on proportionality grounds.

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.

A11. We agree with the removal of the disclosure objective in paragraph 221 of IFRS 19 as this is consistent with the IASB's previous decision not to include disclosure objectives in IFRS 19. We agree that the disclosure requirements in paragraphs 221-223 of IFRS 19 are sufficient and clear.

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Question 5—Financial instruments classification and measurement (no changes proposed)
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). 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. Paragraphs BC27–BC31 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for this proposal. 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.

A12. We support the IASB's proposal not to reduce the disclosure requirements relating to contractual cash flows that were introduced by the *Amendments to the Classification and Measurement of Financial Instruments* issued in May 2024.

A13. Given the less complex nature of eligible subsidiaries, the disclosure requirements introduced by the amendments to IFRS 7 are not expected to be applicable in the majority of cases. Also, we agree with the IASB's rational in paragraph BC31 of the ED that this information is likely to be available in the contract and will therefore not require undue effort by an eligible subsidiary.

A14. We agree that the disclosure requirement in paragraph 56B (effects of contractual terms that could change the amount of contractual cash flows) achieves a reasonable balance between cost for preparers and benefits to users.

A15. Finally, paragraph 56C of the consequential amendments to IFRS 19 appears to be disclosure guidance. For this reason, we suggest the IASB considers whether this guidance should be included in IFRS 19.

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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.

A16. We understand from stakeholders that UK unlisted subsidiaries that have regulatory assets and regulatory liabilities may not have public accountability under the definition in IFRS 19 and therefore would be eligible to apply the standard.

A17. While we acknowledge the reason set out in paragraph BC36(b) of the ED for delaying any proposed reduced disclosure requirements, we are concerned that taking the approach of observing the application of a new standard before arriving at a reduced disclosure framework could create a precedent for other new IFRS Accounting Standards issued in the future.

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A18. Consistent with the view in paragraph BC37 of the ED[7], our preferred approach would be to ensure reduced disclosure requirements are available by the effective date of the forthcoming RARL Standard. This approach delivers the following advantages:

a) It is consistent with the IASB's decision to include reduced disclosures for IFRS 14 *Regulatory Deferral Accounts* in IFRS 19.

b) It ensures the objective of IFRS 19 to reduce costs for preparers is maintained.

c) It is more cost-effective for eligible subsidiaries to have reduced disclosures at the time they implement the forthcoming RARL Standard, e.g. enabling them to design their data collection processes or IT system changes accordingly.

d) It enhances the attractiveness of IFRS 19 for eligible subsidiaries.

A19. We therefore recommend the IASB consults on reduced disclosure requirements in a separate ED shortly after the forthcoming RARL Standard is issued. The standard is expected to be issued in H2 2025 and the IASB has tentatively decided to require an entity to apply the final RARL Standard for annual periods beginning on or after 1 January 2029, with earlier application permitted. This provides the IASB sufficient time to implement our recommendation.

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[7] Paragraph BC37 states: "…… On the other hand, some preparers and users might prefer to have reduced disclosure requirements available from the outset so that they have continuity in reporting and do not incur costs in gathering information for disclosure requirements that could be reduced in the future. Allowing reduced disclosures as soon as the prospective RARL Standard is issued would give greater stability to eligible subsidiaries and users of their financial statements."