27 November 2024

International Accounting Standards Board
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United Kingdom
Email: commentletters@ifrs.org

Dear Sir/Madam

SAICA SUBMISSION ON ED/2024/5 – AMENDMENTS TO IFRS 19 – *SUBSIDIARIES WITHOUT PUBLIC ACCOUNTABILITY: DISCLOSURES*

In response to your request for comments on ED/2024/5 – Amendments to IFRS 19 – *Subsidiaries Without Public Accountability: Disclosures*, attached is the comment letter prepared by the South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of SAICA's Accounting Practices Committee (APC), which comprises members from reporting organisations, regulators, auditors, IFRS specialists, investment analysts and academics.

We thank you for the opportunity to provide comments on this Exposure Draft.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Prof Ahmed Mohammadali-Haji
Chairperson: APC

Mulala Ratshitanga
Project Director: Financial Reporting

Cc: Bongeka Nodada
Executive: Corporate Reporting

GENERAL COMMENTS

Our discussion took into consideration that when IFRS 19 was developed, the principles of IFRS for SMEs were used as a starting point, however we are noting that there are now inconsistencies between IFRS for SMEs and subsidiaries without public accountability, without an explanation provided on why there are deviations.

SPECIFIC COMMENTS

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.

We 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. We also agree with what is stated in the Basis for Conclusions explaining the IASB's rationale for this proposal.

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.

We are not aware of any other disclosure requirements in IFRS 18 that are not applicable to eligible subsidiaries and that should be removed from IFRS 19.

However, we have not tested the disclosure requirements of IFRS 18, in order for us to be able to provide detailed comment in this regard, as IFRS 18 is still relatively new, and we are aware that many preparers have not had much experience in the application of that standard in practice. As it stands, we do not note any additional disclosures that should be removed.

However, in deliberating on the proposed amendments to paragraph 137 of IFRS 19 (see our comments below), members observed that, in the context of the disclosure requirements around classification of current liabilities in IAS 1 and IFRS 18, both standards require disclosure of information around non-adjusting events after the reporting period pertaining to a right to defer settlement for at least 12 months:

IAS 1.76	IFRS 18. B105
If the following events occur between the end of the reporting period and the date the financial statements are authorised for issue, those events are disclosed as non-adjusting events in accordance with IAS 10 – *Events after the Reporting Period*: 1. refinancing on a long-term basis of a liability classified as current (see paragraph 72); 2. rectification of a breach of a long-term loan arrangement classified as current (see paragraph 74); 3. the granting by the lender of a period of grace to rectify a breach of a long-term loan arrangement classified as current (see paragraph 75); and 4. settlement of a liability classified as non-current (see paragraph 75A).	If the following events occur between the end of the reporting period and the date the financial statements are authorised for issue, those events are disclosed as non-adjusting events in accordance with IAS 10 – *Events after the Reporting Period*: (a) refinancing on a long-term basis of a liability classified as current (see paragraph B98); (b) rectification of a breach of a long-term loan arrangement classified as current (see paragraph B102); (c) the granting by the lender of a period of grace to rectify a breach of a long-term loan arrangement classified as current (see paragraph B103); and (d) settlement of a liability classified as non-current (see paragraph B104).

We noted that these disclosure requirements have been omitted from IFRS 19.

Some members noted the principles for developing IFRS 19 described in IFRS 19.BC 33(a) that *users of the financial statements of eligible subsidiaries are particularly interested in information about short-term cash flows and about obligations, commitments or contingencies, whether or not they are recognised as liabilities*, and questioned why information regarding non-adjusting events affecting classification of liabilities would not be important for users of financial statements of eligible subsidiaries and should therefore be required under IFRS 19. Although it could be argued that eligible subsidiaries would need to assess all post-reporting date events against the principles of IAS 10, the examples listed in IAS 1.76/IFRS 18.B105 are not included in IAS 10.22 (which has been reproduced in IFRS 19.191), which means that eligible subsidiaries would not have the same examples of potentially material disclosable non-adjusting events to consider as entities not applying IFRS 19.

Therefore, we recommend that the Board considers including an equivalent of IAS 1.76/IFRS 18.B105 in IFRS 19, or alternatively expanding the list of examples of non-adjusting events in IFRS 19.191 with the items noted in those paragraphs.

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?

Members had mixed views on this question. The majority of members agree with the proposal to remove the disclosure objective in paragraph 137 of IFRS 19 relating to non-current liabilities with covenants.

However, some members believe that it is not as clear whether the wording perceived as relating to a disclosure objective in paragraph 137 of IFRS 19, is in fact a disclosure objective, as it appears to be slightly different to the disclosure objectives noted across other standards. In this case, these members believe that the wording has relevance, as it provides more of an introduction and gives context to the disclosure requirements in paragraph 137(a) and (b) of IFRS 19. These members therefore believe that the wording perceived as relating to a disclosure objective should be reworked as follows, to ensure that this context is still provided: "…In such situations, the entity shall disclose the information required in (a) and (b) about the risk that the liabilities could become payable within 12 months after the reporting period."

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.

We have mixed views on this proposal. Some members agree with the proposal to delete the disclosure objective previously included in paragraph 167, to add a new paragraph 167A that provides a description of supplier finance arrangements (SFAs), and to amend paragraph 168 of IFRS 19 to remove the reference to the disclosure objective. These members observed that this approach will make IFRS 19 a self-contained disclosure standard for eligible subsidiaries, without deviating from the overarching principle of excluding disclosure objectives from the standard.

However, a similar number of members were of the view that the proposal to include the new paragraph 167A, which effectively provides explanatory guidance regarding the meaning of a SFA, is unusual and inconsistent with other parts of IFRS 19. These members noted that paragraph 44 of IAS 7 deals with the disclosures for changes in liabilities arising from financing activities and that, if IFRS 19 does not refer to the information in paragraph 44G of IAS 7, where a SFA is described and where context to these arrangements has already been provided, an eligible subsidiary may not be aware that such guidance exists, as it may only focus on the specific disclosure requirements contained in IFRS 19. These members therefore suggested that, instead of including the new paragraph 167A in IFRS 19, the Board should rather retain the current cross reference to paragraph 44G of IAS 7 in paragraph 167 of IFRS 19 and only delete the remainder of the disclosure objective in paragraph 167. This suggestion effectively removes the part relating to the disclosure objective in paragraph 167 and retains only the part that references to where an eligible subsidiary can find information on the meaning of a SFA as is currently adequately explained in IAS 7.

The proposed wording to be retained in paragraph 167 is as follows:

"An entity shall disclose information about its supplier finance arrangements (as described in paragraph 44G of IAS 7 Statement of Cash Flows)".

Following the above proposed wording, we recommend that the proposed new paragraph 167A be omitted from the final amendments to IFRS 19.

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

We have mixed views on this proposal. Some members are in support that there should be no further changes to the disclosure requirements for SFAs in IFRS 19.

Other members expressed the following views:

- When IFRS 19 was developed, the principles for developing the disclosure requirements of the IFRS for SMEs Accounting Standard were used as a starting point. While we note the broader discussion in Basis for Conclusions paragraph BC32-BC45 of IFRS 19 around the development of the disclosure requirements for IFRS 19, we note in particular the commentary in paragraphs BC42, viz., "The IASB then considered whether changes to the proposed disclosure requirements in IFRS 19 were merited even though they might introduce a change from the disclosure requirements in the IFRS for SMEs Accounting Standard, and despite the two Standards having the same recognition and measurement requirements. The expectation was that such changes would occur infrequently because both IFRS 19 and the IFRS for SMEs Accounting Standard contain disclosure requirements that are based on IFRS Accounting Standards assessed against the same principles for reducing disclosure requirements." Given that the recognition and measurement requirements for SFAs are the same, as well as the potential costs, risks and user needs around such arrangements are expected to be similar, we believe that there should be consistency between the SFA disclosure requirements applicable to SMEs and those required for an eligible subsidiary.

  These members also noted the concerns that were previously highlighted in the Exposure Draft *Addendum to the Exposure Draft Third edition of the IFRS for SMEs Accounting Standard*[1], on the cost of providing the information required by the proposed new paragraph 7.19C(b)(ii) (the equivalent of paragraph 168(b)(ii) of IFRS 19) potentially outweighing the benefits of providing this information and indicated that there may be a similar concern for eligible subsidiaries. While the Board's decision on the equivalent disclosure requirements to be included in the Third edition of the IFRS for SMEs Accounting Standard has not yet been formally communicated, the tentative feedback published on the project page to date suggests that the Board may be considering some changes to the proposed disclosure requirements for SMEs in response to the concerns raised around potential costs of obtaining the necessary information and to provide a level of relief to SMEs around certain of these disclosures. We therefore recommend that there be appropriate alignment between the final disclosure requirements for SFAs under IFRS 19 and the equivalent disclosure requirements for SFAs under the Third edition of the IFRS for SMEs Accounting Standard.

[1] IASB/ED/2024/2

- We are cognisant of an alternative view, that the availability of the information required by an eligible subsidiary for these disclosures, might not be too onerous to obtain for all eligible subsidiaries[2], as this information will in any case need to be provided by an eligible subsidiary to its parent for group reporting purposes, as required by full IFRS Accounting Standards, and that this may not necessarily be the case for SMEs. Therefore, we note that if this is the position, a distinction can be made between SMEs and an eligible subsidiary and therefore suggest that where the Board deviates from the disclosure requirements for SFAs in the IFRS for SMEs Accounting Standard, it would be helpful for the Board to articulate its rationale around why it believes certain disclosure would be relevant for an eligible subsidiary, whilst not relevant SMEs.

Question 3—International tax reform—Pillar Two model rules (proposed amendment 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 suggest that the Board considers deleting the words 'qualitative and quantitative' from paragraph 199 of IFRS 19. We are of the view that the reference to 'qualitative and quantitative information' effectively results in a form of a disclosure objective, by implying that there is a need for quantification and that these requirements appear to extend the scope of the potential disclosures too widely, by not allowing the eligible subsidiary to apply its own judgment in deciding the extent of the disclosures that are necessary under these circumstances.

Proposed wording for paragraph 199:

"In periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect, an entity shall disclose information about its exposure to Pillar Two income taxes at the end of the reporting period. This information does not have to reflect all the specific requirements of the Pillar Two legislation and can be provided in the form of an indicative range. To the extent information is not known or reasonably estimable, an entity shall instead disclose a statement to that effect and disclose information about the entity's progress in assessing its exposure" .

[2] We acknowledge that our comment letter on IASB/ED/2024/2 held the view that, in practice, we do not foresee significant additional costs to obtain the information about supplier finance arrangements.

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?

We support the proposal to remove reference to the disclosure objective.

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

We suggest that the Board considers removing paragraph 223(f) of IFRS 19, that requires disclosure of qualitative information about each type of risk that the entity is exposed to because the currency is not exchangeable into another currency and the nature and carrying amount of assets and liabilities exposed to each type of risk. This suggestion is based on the fact that this disclosure requirement is not proposed by IASB/ED/2024/2, in line with the points raised above around the consistency and alignment of disclosures required for an eligible subsidiary and an SME. We have also noted that disclosure of the nature and extent of market risk that an eligible subsidiary is exposed to, arising from its financial instruments, is not required in the IFRS 7 section of IFRS 19, it therefore appears to be inconsistent that an eligible subsidiary would be required to disclose this type of information in this context.

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.

We are generally in support of the disclosure requirements included in paragraph 56B - 56D of IFRS 19. However, the bulk of paragraph 56A appears to be a disclosure objective paragraph. Considering the other amendments that have been proposed, where disclosure objective paragraphs are being removed, this appears to be contradictory to the approach that has been taken elsewhere in the standard. We therefore suggest that paragraph 56A is removed, but that paragraph 56B is amended to specify that the disclosure in paragraph 56B is required by class of financial assets measured at amortised cost or fair value through other comprehensive income and by class of financial liabilities measured at amortised cost.

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?

We are aware that there are some state-owned entities and some entities operating in that environment that might potentially fall into the scope of both IFRS 19 and the prospective RARL Standard. However, our view is this will not have a widespread impact.

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.

We agree that the unshaded requirements in Table 1 align to the IASB's principles for developing reduced disclosure requirements.

With respect to the requirement in paragraph 7(e) of Table 1 to disclose a reconciliation from the opening to the closing carrying amounts of regulatory assets and regulatory liabilities, we note that similar requirements for disclosure of reconciliations of the carrying amount at the beginning and end of the period of other assets and liabilities (e.g., paragraph 200(e) paragraph 206 and paragraph 263(e)) do not require disclosure of comparative information. Accordingly, we recommend that similar relief be extended to the reconciliation of the carrying amounts of regulatory assets and liabilities.

As we have limited exposure to rate regulated activities locally, we do not have any further input into this question.