Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Update for Tier 2 for-profit entities:

Status of IFRS 19 *Subsidiaries without Public Accountability: Disclosures*

July 2024

In New Zealand, for-profit reporting entities that do not have public accountability (Tier 2 for-profit entities) have the option to report using New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR). This reduced disclosure regime allows entities a simplified and reduced cost reporting mechanism.

In May 2024, the International Accounting Standards Board (IASB) issued IFRS 19 *Subsidiaries without Public Accountability: Disclosures*. IFRS 19 permits eligible subsidiaries[1] to reduce their disclosures whilst maintaining compliance with IFRS® Accounting Standards. Unlike other IFRS Accounting Standards, IFRS 19 is a voluntary standard.

Possible approaches to IFRS 19 in New Zealand

In considering the approach to IFRS 19 in New Zealand, we analysed four possible options (outlined below). We also considered the importance of international alignment of reporting standards, the cost for preparers to adopt this standard and the proposed benefits that adoption would achieve.

Option 1

Replace Tier 2 for-profit disclosure requirements (i.e. current RDR) with IFRS 19.

Option 2

Permit eligible subsidiaries in New Zealand a choice between applying current RDR and IFRS 19.

Option 3

Align current RDR with the disclosure requirements in IFRS 19.

Agreed Option

Option 4

Retain current RDR

What does this mean for you?

As a result of our decision, Tier 2 for-profit entities are not required to make any changes to their reporting as a consequence of IFRS 19.

Further details on our decision-making analysis are provided on the next page.

[1] A subsidiary is eligible to apply IFRS 19 if it does not have public accountability, and its ultimate or any intermediate parent produces consolidated financial statements available for public use that comply with IFRS Accounting Standards.

Scope analysis

IFRS 19 may only be applied by subsidiaries that meet the eligibility criteria within the standard. The scope of IFRS 19 does not align with that of New Zealand's current RDR. Option 1 would require a modification to the scope of IFRS 19. Consequently, the ability to state compliance with IFRS Accounting Standards would be lost.

Currently, Tier 2 for-profit entities do not state compliance with IFRS Accounting Standards. Therefore, international alignment in this regard is not as important as it is for Tier 1 for-profit entities.

Option 2 would permit those Tier 2 entities that are also eligible subsidiaries to use IFRS 19. This option would, however, add a layer of unnecessary complexity to the Accounting Standards Framework.

Disclosures

For our consideration of Options 1 and 3, we performed a detailed analysis on the comparison between current RDR and IFRS 19. Our analysis highlighted that while many disclosure requirements in IFRS 19 are similar to those in the current RDR, IFRS 19 includes several additional requirements. Consequently, it is not clear that the benefits to users would justify the costs for Tier 2 entities to provide these additional disclosures.

Conclusion

For the reasons set out above, we have concluded that Options 1–3 are not supportable at this time – therefore, we have elected to proceed with Option 4. As a result, we intend to:

- retain current RDR for Tier 2 for-profit entities;
- develop a formal policy for determining RDR concessions, where consideration of IFRS 19 disclosure requirements would be one of the inputs into decisions on future RDR concessions; and
- reconsider the appropriateness of incorporating IFRS 19 into New Zealand for-profit standards if and when the IASB reconsiders the scope of IFRS 19.