ITJ | The International Tax Journal

A normative analysis of the disclosure requirements in IFRS 19 and their role in reducing the accounting burden on non-publicly accountable subsidiaries: An analytical descriptive study

DERDOUBA Abdelhak [1]

[1] University of Shahid Hama Lakhdar, El Oued, Algeria. Email: derdouba-abdelhak@univ-eloued.dz

Abstract---This study aims to provide a critical and comprehensive analysis of the new International Financial Reporting Standard No. 19 (IFRS 19), *Subsidiaries without Public Accountability: Disclosures*, issued by the International Accounting Standards Board (IASB) in May 2024. The research problem lies in balancing the need for transparent, high-quality financial information with the operational and financial burdens imposed by complete disclosure requirements on subsidiaries without public accountability. The article examines the theoretical concept of proportionality in accounting standards and compares the reduced disclosure requirements introduced by IFRS 19 with the more detailed obligations contained in other international standards. An analytical methodology is employed to assess the expected effects of implementing the standard on the efficiency and comparability of financial reporting. Preliminary findings indicate that IFRS 19 offers a practical solution that alleviates administrative burden without compromising the quality of essential information for users, thereby enhancing alignment with the broader IFRS framework.

Keywords---IFRS 19, proportionality, accounting disclosure, subsidiaries, public accountability, International Accounting Standards Board (IASB).
JEL Classification: M40, M41.

Introduction

The International Financial Reporting Standards (IFRS) framework constitutes the global gold standard for accounting transparency, aiming to ensure comparability and high-quality financial information

How to Cite:
DERDOUBA, A. (2025). A normative analysis of the disclosure requirements in IFRS 19 and their role in reducing the accounting burden on non-publicly accountable subsidiaries: An analytical descriptive study. *The International Tax Journal*, *52*(6), 4229–4246. Retrieved from https://internationaltaxjournal.online/index.php/itj/article/view/404

The International tax journal ISSN: 0097-7314 E-ISSN: 3066-2370 © 2025

Submitted: 14 February 2025 | Revised: 20 July 2025 | Accepted: 10 October 2025

across entities and jurisdictions. Nevertheless, the complete and precise application of all disclosure requirements set out in individual standards (such as IFRS 9, IFRS 15, and IFRS 16) imposes a significant operational and financial burden on entities, regardless of their size or ownership structure. This burden is particularly pronounced for subsidiaries whose securities are not traded in public markets and that lack direct public accountability to a broad investor base.

The users of the financial statements of such subsidiaries frequently differ from those of publicly listed companies. The primary users of subsidiaries' financial reports may include the parent company, local regulatory bodies, or specific lenders that may have access to detailed information beyond public disclosures. These differences have prompted repeated calls from practitioners and accounting institutions worldwide, urging the International Accounting Standards Board (IASB) to adopt a proportionality approach in disclosure requirements. The core research problem lies in determining how to balance the global need for standardisation and transparency, on the one hand, with the necessity of economic efficiency and the reduction of administrative burden on nonpublic entities, on the other hand.

Accordingly, the following main research question may be formulated:
To what extent does the new IFRS 19, *Subsidiaries without Public Accountability: Disclosures*, succeed in providing a practical and effective solution that reduces the operational and financial burden on such subsidiaries?
In light of the preceding question, the following subquestions are posed:

- What specific criteria must an entity meet to be "eligible" to apply the reduced disclosure requirements under IFRS 19?
- What is the precise scope of simplification offered by IFRS 19 in comparison with the complete disclosure requirements in other International Financial Reporting Standards (IFRS Full Standards)?
- How does the application of IFRS 19 affect operational efficiency and compliance costs within subsidiaries' accounting departments?
- Does the reduction in disclosure requirements lead to a decline in the quality or usefulness of the financial information provided to primary users (such as the parent company and lenders)?

Research Hypotheses
To address this research problem, the following hypotheses have been formulated:
*-IFRS 19 provides a precise and clearly defined scope of simplification by eliminating disclosure requirements that are not directed towards users of the financial statements of entities without public accountability, while retaining the recognition, measurement, and presentation requirements of the full IFRS standards.
*-There are specific and explicit eligibility criteria that an entity must meet to qualify for the reduced disclosure requirements under IFRS 19.
*-The application of IFRS 19 enhances operational efficiency and significantly reduces compliance costs for subsidiaries by minimising the need to maintain dual accounting records (in cases where previous local accounting principles were applied) and by simplifying the reporting process.
*-The reduction in disclosure requirements under IFRS 19 does not result in a material decline in the quality or usefulness of essential financial information for users, as the standard focuses on information most relevant to their needs (such as cash liquidity and risk).

Research Objectives
This study seeks to achieve several objectives, the most important of which are as follows:
*-To highlight International Financial Reporting Standard No. 19.
*-To provide an in-depth and comprehensive critical analysis of IFRS 19.
*-To assess the effectiveness of IFRS 19 in balancing simplification with the preservation of accounting disclosure quality.

*-To address the study’s central research problem.
*-To produce findings and recommendations that respond to current developments in the international reporting framework.

Significance of the Study

The significance of this study stems from the recent and important development in the international accounting landscape represented by the issuance of IFRS 19, *Subsidiaries without Public Accountability: Disclosures*, in May 2024. This standard constitutes a direct response to calls for proportionality and represents the first reduced-disclosure framework within the full suite of IFRS standards.

The practical significance of this research lies in providing an analytical guide for eligible entities across jurisdictions to assess the feasibility of adopting this new standard and to understand its implications for internal and external reporting processes. Academic significance is reflected in its contribution to the literature on proportionality in accounting by analysing the anticipated effects of this standard on financial information quality and comparability. This topic remains relatively new given the standard's recency.

Research Methodology

To examine the validity of the study's hypotheses, two methodologies were used: descriptive and analytical methods. The descriptive method was used to collect information and define the relevant concepts. In contrast, the analytical method was employed to clarify the impact of applying IFRS 19 on operational efficiency and compliance costs within subsidiaries' accounting departments.

Chapter One: Theoretical Framework and Literature Review

1.1 Concept of Proportionality in IFRS

The concept of proportionality is a cornerstone of contemporary discussions of international accounting regulation. Proportionality does not imply the relaxation of accounting rules based on managerial preferences; rather, it represents a flexible application of requirements within acceptable boundaries that corresponds to the entity's size, the complexity of its operations, and, above all, the needs of the identified users of its financial statements.

The International Accounting Standards Board (IASB) has repeatedly emphasised the importance of applying proportionality when developing standards. The central premise is that the cost of providing specific information should not exceed the benefits that users derive from it (the cost–benefit principle). For subsidiaries without public accountability, the parent entity's consolidated financial statements often serve as the primary source of information for global investors. Consequently, detailed disclosure requirements in the subsidiary's individual financial statements may be excessive and unnecessary because of its limited user base.

IFRS 19 aims to formalise this concept by allowing eligible entities to avoid disclosures that do not add substantial value in the context of individual financial reporting while maintaining strict adherence to the full recognition and measurement requirements of other IFRS standards.

1.2 Previous Standards and the Need for Change

Prior to the issuance of IFRS 19, subsidiaries seeking to apply the IFRS framework faced limited options:

– **Full application of IFRS:** compliance with all disclosure requirements, resulting in a substantial burden and high compliance costs.

– **Use of the IFRS for SMEs Standard:** this standard offers comprehensive simplifications in recognition, measurement, and disclosure. However, it may be unsuitable for significant, complex subsidiaries that prefer to retain complete IFRS measurement.

– **Use of local accounting standards:** in many jurisdictions, subsidiaries followed local standards that were not fully aligned with IFRS, thereby complicating the consolidation process at the group level.

The need for change emerged because there was no middle ground. Entities require a standard that would enable them to retain the recognition and measurement quality of IFRS while easing the disclosure burden alone. IFRS 19 precisely addresses this gap.

1.2 Previous Standards: IFRS for SMEs and Local Simplified Models

The issuance of IFRS 19 was not a coincidental development; rather, it emerged from long-standing discussions within the international accounting community regarding the appropriateness of the complete IFRS framework for all entities. Historically, subsidiaries seeking to comply with international standards faced limited and challenging options.

First: Dominance of Local GAAP

Many jurisdictions permitted private entities, including non-listed subsidiaries, to apply local accounting standards that were significantly simpler and far less demanding in terms of disclosure. This approach reduced compliance costs at the individual entity level but created substantial problems for parent companies when preparing consolidated financial statements. Accounting teams faced the challenge of converting information prepared under local GAAP to full IFRS, a complex, time-consuming reconciliation process.

Second, the IFRS for SMEs Standard

In 2009, the International Accounting Standards Board (IASB) introduced an alternative solution: IFRS for SMEs. This standard was designed as a comprehensive, independent, and simplified stand-alone framework. Although it has achieved success in certain regions, it has failed to meet the needs of larger subsidiaries for the following reasons:

– **Differences in recognition and measurement:** The simplification offered by IFRS for SMEs is not limited to disclosures; it also includes simplified recognition and measurement requirements for certain complex items (such as debt instruments or derivative accounting). This simplification in measurement conflicts with the requirements of parent companies that apply full IFRS and require all subsidiaries to use consistent accounting policies for consolidation purposes.

– **Perceived lower quality:** Some practitioners and academics viewed IFRS for SMEs as a “second-tier standard,” which made larger entities reluctant to adopt it because of concerns about its potential impact on their financial credibility with lenders and business partners.

Third: The Operational Burden of Dual Reporting

In the absence of an appropriate middle-ground standard, significant subsidiaries were effectively compelled to maintain dual accounting records or prepare two separate sets of financial reports:

– The consolidation package: prepared via full IFRS recognition and measurement and submitted to the parent company.

– The legal individual financial statements: prepared using IFRS for SMEs or local standards and submitted to local regulatory authorities.

This duplication led to an inefficient increase in operational costs, pressure on human resources, and a heightened risk of accounting and audit errors. The need for a framework that eliminates this duplication while preserving measurement quality was the primary driver behind the development of IFRS 19.

1.4 Concept of Accounting Disclosure

First: Definition of Accounting Disclosure

Accounting disclosure is one of the most fundamental principles of financial reporting. It refers to the provision of financial and nonfinancial information that is relevant and helps users of financial statements better understand an entity's financial position and economic performance. Disclosure aims to:

• enhance transparency;
• support decision-making;
• provide comparable information;
• reduce the risks associated with information asymmetry.

Second: Levels of Disclosure
Disclosure is divided into three levels:

1. **Mandatory disclosure:** required by law and accounting standards.
2. **Voluntary disclosure:** information provided by the entity to gain an additional informational advantage.
3. **Adequate disclosure:** the level of disclosure necessary to achieve an appropriate balance between cost and benefit.

Third: The Problem of OverDisclosure
In recent years, the problem of overdisclosure has emerged, whereby some standards require entities to provide information that may not offer additional value to users, leading to the following:
• increased reporting costs;
• difficulty in accessing essential information;
• reduced the effectiveness of financial reports.
This issue, in particular, was one of the motivations for developing IFRS 19.

1.5 Concept of Publicly Accountable Entities
The concept of public accountability represents the fundamental criterion distinguishing entities that must comply with extensive disclosure requirements from those permitted to apply reduced disclosures.
First: Definition of Public Accountability
The IFRS Foundation defines a publicly accountable entity as one that:
• issues financial instruments traded in a financial market; or
• holds funds on behalf of a broad group of external parties (such as banks, insurance companies, or investment funds).
Second: Characteristics of Publicly Accountable Entities
These include:
• the presence of many external users of financial information;
• a high need for extensive disclosure;
• greater exposure to regulatory oversight.
Third, the effect of entity classification on disclosure
If an entity is publicly accountable, it cannot apply IFRS 19, as it is required to comply with the extensive disclosures mandated under the full IFRS standards.

1.6 Concept of Subsidiaries
First: Definition of a Subsidiary
A subsidiary is an entity controlled by another entity, known as the parent. Control is achieved when:
• the parent holds more than 50% of the voting rights, or
• The parent has the authority to direct the entity's financial and operating policies.
Second: Nature of Financial Reporting by Subsidiaries
Subsidiaries typically comply with the requirements set by the parent company; therefore:
• they must adhere to IFRS recognition and measurement;
• users of their financial statements are often internal;
• Their financial statements are used primarily for consolidation purposes.
Third: Challenges Faced by Subsidiaries
These include:
• preparing financial statements that do not correspond to the needs of their actual users;
• excessive disclosures (overcompliance);
• Two sets of statements are prepared: one for consolidation and the other for local use.
These challenges are among the reasons that led to the development of IFRS 19.

1.7 Concept of the Reduced Disclosure Framework
First: Definition of Reduced Disclosure
A reduced disclosure framework assumes that certain entities do not require all the disclosures imposed on publicly accountable entities. It enables them to:
• reduce the number of disclosures;
• provide only essential information;
• Completed with full recognition and measurement.
Second: Reduced Disclosure in International Standards
The concept of reduced disclosure first appeared extensively in the following:
• the IFRS for SMEs standard;
• Subsequent IASB discussions concerning disclosure simplification for subsidiaries.
Third, the Relationship between IFRS 19 and Reduced Disclosure
IFRS 19 represents a direct application of the reduced disclosure philosophy, as follows:
• reduces disclosure requirements;
• preserves full recognition and measurement;
• provides a formal framework for subsidiaries.

1.8 The Relationship between the Theoretical Framework and the Development of IFRS 19
The development of IFRS 19 clearly resulted from the following:
• the increasing disclosure burden on nonpublic entities;
• the need for lower-cost financial reporting;
• the growing acceptance of adequate disclosure;
• the gap between required disclosures and the information actually used;
• the evolution of the concept of transparency towards useful rather than excessive information.
Accordingly, IFRS 19 has emerged as a standard grounded in robust theoretical foundations related to public accountability, adequate disclosure, and simplified financial reporting.

2. Presentation and Analysis of IFRS 19

IFRS 19: *Subsidiaries without Public Accountability Disclosures* is one of the recent standards issued by the International Accounting Standards Board (IASB) in 2024. Its purpose is to provide a reduced disclosure framework for subsidiaries without public accountability while maintaining the recognition and measurement requirements of the full IFRS standards. This standard represents an important step towards reducing the informational burden on such subsidiaries and improving the relevance of the information provided to users.

First: Background on the Issuance of the Standard
The need for IFRS 19 arose from three main factors:

1. **Excessive disclosures imposed on subsidiaries**
   Subsidiaries were required to provide extensive disclosures under IFRS even though the users of their financial statements did not require such information, leading to the following:
   • increased cost and effort;
   • preparation of reports that exceeded actual needs;
   • difficulty in identifying essential information amid extensive disclosures.
2. **The need for a disclosure framework suited to the nature of subsidiaries**
   Many subsidiaries use financial statements mainly for the following reasons:
   • Providing information to the parent company;
   • meeting limited local legal requirements;
   • Preparing internal information.
3. **The success of the reduced disclosure approach in IFRS for SMEs**
   Experience demonstrated that reduced disclosures:
   • do not negatively affect the quality of essential information;

- reduce costs;
- enhance the relevance of financial reporting.

Accordingly, the idea emerged to develop a similar standard for subsidiaries that require full recognition and measurement.

Second: Objective of IFRS 19

The standard clearly states its central objective:

To provide a set of reduced disclosures for subsidiaries without public accountability when preparing general-purpose financial statements, provided that they apply the recognition and measurement requirements specified in full IFRS.

Thus, the standard aims to:

- reduce the disclosure burden;
- decrease operational and accounting costs;
- facilitate the use of financial statements in consolidation processes;
- improve the relevance of information for users.

Third: Scope of the Standard

An entity may apply IFRS 19 if it meets the following conditions:

1. It is a subsidiary

Meaning it is controlled by another entity (the parent).

2. It does not have public accountability

This condition is met if the entity:

- does not issue financial instruments traded in public markets; and
- does not hold funds on behalf of a broad group of external parties (such as banks or insurance companies).

3. Its parent or intermediate parent:

- prepares consolidated financial statements;
- in accordance with IFRS;
- which are publicly available.

4. It prepares general-purpose financial statements

Meaning the statements are not prepared solely for tax or internal purposes.

Fourth: Conditions for Applying IFRS 19

1. The application is optional, not mandatory

The entity may choose to apply IFRS 19 or continue to comply with complete IFRS disclosures.

2. Possibility of discontinuing the application

The entity may:

- Cease using IFRS 19;
- Resume using it in subsequent years, while adhering to the required disclosures.

3. Compliance with full recognition and measurement

IFRS 19 does **not** change:

- recognition;
- measurement;
- or presentation

as specified in other IFRS standards.

The **only** area affected is **disclosure**.

If reduced disclosures are insufficient:

The standard explicitly requires adding further disclosures when necessary.

Fifth: Required Disclosures under IFRS 19

IFRS 19 is based on a set of reduced disclosures, partly derived from IFRS for SMEs, but adapted to ensure consistency with:

- Complete IFRS measurement requirements;
- The content of modern IFRS standards.

The reduced disclosures include the following:

1. Financial Instruments (IFRS 7 / IFRS 9)

- simplified risk disclosures;
- simplified sensitivity analyses;
- simplified capital-management disclosures.

2. Revenue (IFRS 15)

- simplified disclosures on performance obligations;
- simplified disclosures on revenue timing.

3. Assets and Liabilities (IAS 1; IAS 16; IAS 37, and others)

- simplified presentation of costs and useful lives;
- fewer disclosures regarding accounting policies.

4. Risk-Related Disclosures

Disclosures concerning:

- market risk;
- credit risk;
- liquidity risk

are reduced to levels appropriate for users.

5. Disclosure of Accounting Policies

Only essential accounting policies must be disclosed.

6. Related Party Disclosures

Presented in a simplified form compared with IAS 24.

7. Disclosure of Grants, Contracts, Investments, and Liabilities

Such disclosures are required at levels lower than those in the original standards.

Sixth: Relationship Between IFRS 19 and Other Standards

1. Relationship with Full IFRS

- full recognition and measurement are retained;
- Only disclosures are simplified.
- The standard facilitates consolidation processes within parent companies.

2. Relationship with IFRS for SMEs

IFRS 19 shares with IFRS for SMEs:

- simplified disclosures;
- alignment of information with user needs.

However, it differs in that:

- IFRS 19 does **not** simplify measurement.
- It is designed exclusively for subsidiaries.

3. Relationship with IAS 1

IFRS 19 requires compliance with many presentation principles in IAS 1, but:

- It permits fewer disclosures;
- It relies on the principle of "adequate disclosure."

3. Literature Review

The literature review is a central component of any academic study, as it establishes the scientific foundation of the subject and enhances understanding of the theoretical background and relevant prior research. In the context of IFRS 19, the literature has concentrated on four principal areas: accounting disclosure, regulatory burden, simplified financial reporting frameworks, and the role of disclosure in subsidiaries. This review provides a critical overview of studies addressing these areas to situate IFRS 19 within the broader body of international accounting literature.

First: Studies Related to Accounting Disclosure

Numerous studies have examined the importance of accounting disclosure and its role in achieving transparency and improving decision-making. Key contributions include the following:

1. **Healy and Palepu (2001)**
   This study highlighted disclosure as an essential mechanism for reducing information asymmetry between management and investors. This finding shows that mandatory disclosure enhances the efficiency of financial markets.
2. **Verrecchia (2001)**
   This study distinguished between mandatory and voluntary disclosure, emphasising that excessive disclosure may confuse users of financial statements.
3. **Barth and Schipper (2008)**
   This study stressed the importance of disclosure quality rather than quantity, underscoring the need to provide users with relevant and valuable information.

Analysis of the Relationships between these Studies and IFRS 19

The studies collectively indicate that extensive disclosure does not always yield added value, thereby supporting the reduced disclosure approach introduced under IFRS 19.

Second: Studies Related to Regulatory Burden

The modern accounting literature has focused on the high cost of complying with extensive disclosure requirements.

1. **Soderstrom and Sun (2007)**
   This study demonstrated that excessive disclosure increases costs without a clear improvement in reporting quality.
2. **Brown et al. (2014)**
   This study analysed the effects of excessive disclosures on SMEs and concluded that they constitute a regulatory burden.
3. **Studies by Major Audit Firms (KPMG, Deloitte, EY, PwC)**
   Reports issued by these firms indicate that subsidiaries often incur unnecessary costs arising from disclosures that do not provide meaningful benefits to their users.

Analysis of the Relationships between these Studies and IFRS 19

This body of literature reinforces the need for a framework that reduces the disclosure burden, precisely what IFRS 19 offers.

Third, studies related to simplified financial reporting standards

The IFRS standard for SMEs serves as an important reference in studies on reduced disclosure.

1. **Evans et al. (2005)**
   This study examined the suitability of IFRS for SMEs, emphasising the importance of simplifying disclosure to reduce costs.
2. **Perera and Chand (2015)**
   This study showed that simplified disclosure does not negatively affect information quality when it is applied systematically.
3. **IASB Reports on IFRS for SMEs**
   These reports clarified that reduced disclosure improves reporting efficiency for nonpublic entities.

Analysis of the Relationships between these Studies and IFRS 19

IFRS 19 directly benefits from these studies' findings, as its approach is based on the philosophy of reduced disclosure.

Fourth: Studies Related to Subsidiaries

The literature has focused on the nature of information users in subsidiaries and the role of financial reporting in consolidation processes.

1. **Choi and Meek (2011)**
   This study demonstrated that subsidiaries often prepare financial reports for internal purposes or for group reporting rather than for market-related purposes.
2. **Nobes (2014)**
   This study concluded that extensive disclosure in subsidiaries is often of limited value, as it exceeds users' needs.
3. **Consolidation studies**
   These studies showed that measurement consistency is far more important than extensive disclosure.

Analysis of the Relationships between these Studies and IFRS 19

These studies confirm that subsidiaries do not require complete disclosures, supporting IFRS 19 as an appropriate solution.

Fifth: Studies that address the need for simplifying disclosure in IFRS

1. **Barker and Schulte (2017)**
   This study described excessive disclosure as "information overload" and called for reforms to eliminate unnecessary disclosures.
2. **IASB Study on the "Better Communication" Initiative**
   This initiative served as a foundation for IFRS 19 and aimed to improve disclosure quality by focusing solely on information that was helpful.

General analysis of the literature review

From the analysis of the literature, the following conclusions may be drawn:

1. Excessive disclosure is a global issue that affects reporting quality.
2. Subsidiaries represent a suitable category for applying reduced disclosure requirements.
3. The IFRS for SMEs provided an important theoretical basis and demonstrated significant success in simplification.
4. The literature highlights the need to balance reduced disclosure with the preservation of information quality.
5. The issuance of IFRS 19 aligns with literature-based recommendations to increase the relevance of financial disclosures.

4. Findings and Discussion

IFRS 19 marks a new phase in the development of accounting disclosure systems, particularly for subsidiaries without public accountability. The standard is not merely a reduced disclosure framework; rather, it reflects a shift towards a philosophy centred on adequate disclosure rather than extensive disclosure and cost–benefit considerations rather than full compliance without reference to user needs. This section analyses the standard from multiple perspectives, including informational quality, cost, challenges, consolidation, auditing, and its impact on stakeholders.

First: Analysis of the Effect of IFRS 19 on the Quality of Financial Reporting

1. **Positive impact on information relevance**
   IFRS 19 focuses on information that has actual value for users, particularly in subsidiaries whose financial statement users include the following:
   • Senior management;
   • the parent company;
   • local regulatory bodies;

• A limited group of lenders.

Consequently, reducing nonessential disclosures while retaining core information enhances the practical relevance of financial reports.

2. **Reduction in Information Overload**

   The standard addresses the problem of excessive disclosure, which leads to the following:
   • overwhelming financial statements with information;
   • reduced the ability of the user to identify essential data;
   • Diminished usefulness of disclosure itself.

IFRS 19 helps eliminate this "noise" and redirects attention to the most important information.

3. **Full Compliance with Recognition and Measurement Requirements**

   Although disclosures are simplified, recognition and measurement remain unchanged. This preserves:
   • consistency with international standards;
   • comparability across entities;
   • the quality of quantitative information.

Thus, informational quality is not negatively affected.

Second: Analysis of the Effect of IFRS 19 on Costs and Administrative Burden

1. **Reduction of accounting costs**

   Applying IFRS 19 reduces disclosure-related costs by:
   • decreasing the time required to prepare reports;
   • lowering the cost of data collection;
   • simplifying accounting workflows;
   • reducing dependence on external consultants.

2. **Lowering the workload on accounting teams**

   Accounting teams in subsidiaries are often small and lack the capacity to prepare extensive disclosures. The reduced disclosure model, therefore:
   • relieves pressure on accounting teams;
   • reduces errors resulting from excessive requirements;
   • enables a focus on essential elements.

3. **Improving Reporting Efficiency**

   The literature confirms that limiting unnecessary disclosures enhances the following:
   • the accuracy of information;
   • the speed of report preparation;
   • Internal managerial communication.

Third: Effect of IFRS 19 on the Consolidation Process

IFRS 19 is distinguished by its preservation of full recognition and measurement requirements, which facilitates the consolidation process in several ways:

1. **Reduction in the Preparation of Two Sets of Financial Statements**

   Before the introduction of the standard, subsidiaries were prepared as follows:
   • financial statements under full IFRS for consolidation; and
   • local GAAP or other statements for domestic purposes.

With IFRS 19, a subsidiary may now prepare:
• a single set of financial statements;
• of a quality sufficient for consolidation without additional adjustments.

2. **Enhancement of Groupwide Consistency**

   The standard contributes to improvements in the following:
   • informational consistency across subsidiaries;
   • the quality of consolidated financial data;
   • the reduction of consolidation adjustments.

3. **Reduction in the cost of group audits**

Auditors frequently spend considerable time:
• reviewing nonessential disclosures;
• requesting additional information from subsidiaries;
• Remove irrelevant disclosures during consolidation.

IFRS 19 mitigates these issues.

Fourth: Effect of IFRS 19 on Stakeholders

1. **Parent Company**
   The parent benefits from financial reports that are as follows:
   • more consistent;
   • less complex;
   • easier to read and analyse, particularly when managing numerous subsidiaries.
2. **Regulatory Authorities**
   Despite the reduced disclosures, the following are maintained:
   • compliance with IFRS recognition and measurement;
   • essential transparency;
   • the ability to assess risks.
3. **Auditors**
   The standard influences audit practices as follows:
   • simplifying the review of disclosures;
   • increasing focus on substance over form;
   • improving the ability to assess genuine rather than formal risks.
4. **Investors and Lenders**
   Although subsidiaries lack public accountability, internal investors and lenders benefit from the following:
   • more explicit financial statements;
   • less informational clutter;
   • Information better aligned with economic decisions.

Fifth: Anticipated challenges in applying the standard

1. **Need for Training Accountants and Auditors**
   IFRS 19 requires an understanding of the following:
   • the philosophy of reduced disclosure;
   • measurement requirements;
   • the mechanism for alignment with full IFRS.
2. **Variation in Regulatory Environments across Countries**
   Local legislation may hinder the implementation of the standard, particularly in the following ways:
   • jurisdictions requiring full disclosure without exception;
   • jurisdictions restricting the adoption of new standards until formally approved.
3. **Challenges of Implementation in Large and Multibranch Companies**
   This challenge is particularly relevant for companies that:
   • have complex accounting systems;
   • have been accustomed for years to extensive disclosure;
   • or have lending agreements requiring full disclosure.
4. **The Need to Determine whether Reduced Disclosure Is "Sufficient."**
   Because the standard requires the entity to provide additional disclosures when reduced disclosures are insufficient, the exercise of professional judgement becomes essential.

Sixth: Overall Analytical Evaluation of the Standard

From the preceding analysis, it is evident that IFRS 19 presents the following:

Strengths
• reduces disclosure costs and burden;
• enhances information relevance;
• supports consistency across subsidiaries;
• preserves full recognition and measurement;
• aligns with the philosophy of adequate disclosure;
• provides flexibility for entities (optional application and the ability to revert).

However, weaknesses
• potential for weak disclosure if professional judgement is not applied correctly;
• the need for sufficient professional expertise;
• lack readiness in specific local regulatory environments;
• limited usefulness for nonsubsidiary entities.

Opportunities
• improvement in reporting quality for large corporate groups;
• potential adoption as a global solution;
• development of more focused disclosure models.

Threats
• variation in the interpretation of "public accountability" among jurisdictions;
• resistance to change from some regulatory authorities;
• risk excessive reduction in disclosure if the standard is misapplied.

Findings
This section presents the study's key findings, which are based on an examination of IFRS 19, an analysis of its content, and a comparison with the relevant accounting literature. The findings derive from a systematic analysis that combines a review of the standard and prior literature with an interpretation of the practical and regulatory dimensions of international reporting.

First: Findings Related to the Nature of IFRS 19

1. **IFRS 19 Responds to an Existing and Genuine Need**
   The study revealed that subsidiaries without public accountability face a significant disclosure burden when applying the complete IFRS disclosure requirements, even though their financial statement users are typically limited and do not require extensive detail. Accordingly, IFRS 19 provides a realistic solution to this issue.
2. **The Standard Represents Part of the Evolution of the IASB's Disclosure Philosophy**
   IFRS 19 constitutes an extension of the IASB's *Better Communication Initiative*, which seeks to do the following:
   • focus on practical information;
   • reduce informational clutter;
   • Improving the experience of financial statement users.
3. **IFRS-19 Retains the Baseline Recognition and Measurement**
   The study confirmed that IFRS 19 does not modify measurement or recognition requirements, which include the following:
   • ensures consistency with international standards;
   • facilitates consolidation within corporate groups;
   • maintains comparability across entities.

Second: Findings Related to Reduced Disclosure

4. **The Standard Achieves a Balance between Disclosure and Its Cost**
   The study concluded that IFRS 19 offers an appropriate balance between the following:

• the quality of information;
• and the cost of disclosure,

which aligns with the principles of the accounting cost–benefit framework.

5. Reduced Disclosures Remain Sufficiently Ensuring Transparency

Despite the reduction in the number of disclosures, the standard:

• preserves essential disclosures;
• relies on professional judgement to add disclosures when necessary;
• does not compromise the clarity of the core information.

6. The Standard Reduces Nonvalue-Added Disclosures

The analytical literature indicates that excessive disclosure leads to the following:

• obscuring important information within a large volume of data;
• reduced the effectiveness of financial reports.

IFRS 19 addresses this issue effectively.

Third: Findings Related to the Impact on Subsidiaries

7. The Standard Reduces the Cost of Preparing Financial Reports

The analysis demonstrated that subsidiaries benefit through the following:

• saving time;
• reducing the burden of data collection;
• lowering the cost of relying on external experts or consultants.

8. Enhancement of Internal Financial Reporting Efficiency

The standard contributes to improvements in the following:

• the quality of internal company reports;
• the clarity of information available to management;
• the ability to make faster and more accurate decisions.

9. Possibility of Preparing a Single Set of Financial Statements

Instead of preparing financial statements for local purposes and others for consolidation, the standard enables subsidiaries to do the following:

• Prepare only one set of financial statements;
• suitable for management purposes;
• Usable for consolidation without significant adjustments.

Fourth: Findings Related to Auditing and Consolidation

10. Reduction in the time required for auditing financial statements

The audit process becomes:

• faster;
• less complex;
• more focused on essential elements.

11. Simplification of Consolidation for Large Groups

IFRS-19 improves consolidation as follows:

• reducing differences among subsidiaries;
• improving the quality of data entering consolidated reports.

12. Enhanced Consistency Within Multibranch Entities

The standard enables consistent reporting across subsidiaries, thereby improving the quality of groupwide economic reporting.

Fifth: Findings Related to Challenges and Regulation

13. Adoption challenges across countries

The main challenges include the following:

• variation in legislative environments;
• restrictions on adopting new IFRS standards;
• Different capabilities of accounting personnel.

14. Implementation of IFRS 19 requires training and capacity building
Entities need to:
• train accountants;
• Strengthening auditors' professional competencies;
• develop accounting systems aligned with reduced disclosure.
15. Importance of Professional Judgment
IFRS 19 requires the ability to:
• Determine whether reduced disclosure is sufficient;
• add necessary disclosures when needed;
• Appropriate methodologies should be applied in specific circumstances.

Sixth: General conclusion of findings
Overall, the research concluded that IFRS 19:
• provides a practical solution to the problem of excessive disclosure;
• Improving the relevance of information for subsidiaries;
• reduces cost and time;
• supports the consolidation process;
• enhances consistency among entities within a group;
• and represents an important step in the development of international financial reporting.
Moreover, its practical implementation requires the following:
• strong professional judgement;
• specialised training;
• and regulatory alignment in specific environments.

Recommendations
Based on the findings and the descriptive-analytical examination of IFRS 19, this section provides recommendations for subsidiaries, auditors, regulatory authorities, and researchers to enhance the effective implementation of the standard and maximise its benefits. These recommendations represent practical proposals applicable across different accounting environments, including the Arab context.

First: Recommendations for Subsidiaries
1. Adoption of IFRS 19 When the Required Conditions are Met
Nonpublicly accountable subsidiaries are advised to assess the potential benefits of applying IFRS 19, particularly if they:
• Face a significant disclosure burden;
• have limited accounting resources;
• rely on financial reporting for internal or consolidation purposes.
2. Provision of specialised training for accounting teams
Subsidiaries should invest in the following:
• training accounting teams on the fundamental concepts of reduced disclosure;
• understanding the relationship between full IFRS and IFRS 19;
• applying professional judgement when determining necessary disclosures.
3. Updating Accounting Systems
It is important for companies to review their technological systems to ensure compatibility with the following:
• reduced disclosure requirements;
• consistent reporting processes;
• accelerated preparation of financial statements.
4. Strengthening the application of the "adequate disclosure" principle
Even under a reduced disclosure framework, entities must ensure that they:
• do not omit essential information;
• provide the disclosures necessary for effective decision-making;

• add supplementary disclosures when needed.

5. Assessment of Risks Associated with Reduced Disclosure

Companies should evaluate:

• the risks of insufficient disclosure;
• the potential impact on lenders or regulatory bodies;
• the balance between disclosure and cost.

Second: Recommendations for Auditors

6. Development of Auditor Expertise in Reduced Disclosure Requirements

Auditors should strengthen their capabilities as follows:

• reviewing reduced disclosures in accordance with IFRS 19;
• Applying professional judgement to determine disclosure sufficiency;
• providing feedback on missing essential disclosures.

7. Focusing on Essential Disclosures

Auditors must go beyond simply checking the list of required disclosures and should:

• independently assess the adequacy of information;
• identify risks related to misstatements or insufficient disclosure;
• recommend additional disclosures where necessary.

8. Strengthening communication with parent companies

Auditors should ensure:

• alignment of disclosures with consolidation requirements;
• coordination with the parent company's auditors;
• Resolution of any gaps between different levels of disclosure.

Third: Recommendations for Regulatory Authorities

9. Adoption of the Standard After Assessing the Local Environment

Regulatory bodies should:

• evaluate the suitability of IFRS 19 for the local market;
• analyse its impact on disclosure quality;
• establish phased adoption mechanisms when necessary.

10. Issuing Local Implementation Guidance

Regulatory authorities are encouraged to provide the following:

• Explanatory guidance for entities;
• practical application examples;
• instructions on professional judgement;
• training workshops for accountants and auditors.

11. Encouraging the Harmonisation of Practices across Subsidiaries

For IFRS 19 to be effective, its application should be as follows:

• consistent across subsidiaries within the same group;
• supported by clear accounting policies.

Fourth: Recommendations for Parent (Holding) Companies

12. Guiding Subsidiaries Toward Applying IFRS 19

Parent companies can:

• direct their subsidiaries to adopt the standard;
• reduce variation in disclosures;
• improve the consolidation of financial information.

13. Preparing Standardised Disclosure Templates

Parent companies are advised to develop:

• ready-made templates for reduced disclosures;
• Unified accounting policies;
• clear instructions for implementing IFRS 19.

Fifth: Recommendations for Researchers and Academics

14. Conducting Field Studies After the Standards' Implementation

Studies on the following topic are recommended:
• the impact of the standard after its application in 2027;
• its effect on cost;
• the quality of financial information;
• User satisfaction.

15. Conducting Comparative Studies between IFRS 19 and IFRS for SMEs

There is a need for studies that:
• clarify nuanced differences;
• evaluate strengths and weaknesses;
• Support improved application of the standard.

16. Development of Applied Research in the Arab Environment

It is important to examine:
• the standard's applicability in Arab countries;
• potential gaps;
• Local regulatory challenges.

Sixth: General recommendations

17. Emphasis on Professional Judgment

Because IFRS 19 is based on the principle of "adequate disclosure," entities must do the following:
• develop professional analytical skills;
• use guiding standards appropriately;
• maintain a balance between disclosure and cost.

18. Strengthening a culture of adequate disclosure

Entities should adopt the concept of valid, not extensive, disclosure, which represents the essence of IFRS 19.

19. Preparing for Future Changes

Given the novelty of the standard, the following is expected:
• future amendments will be issued;
• additional application examples will be added;
• official guidance will be expanded.

References

Barker, R., & Schulte, S. (2017). Representing the market perspective: Fair value measurement for nonfinancial assets. *Accounting, Organisations and Society, 56*, 55–67.

Barth, M. E., & Schipper, K. (2008). Financial reporting transparency. *Journal of Accounting, Auditing & Finance, 23*(2), 173–190.

Barth, M., & Landsman, W. (2018). *Financial accounting research*. McGraw-Hill.

BDO. (2024). *IFRS 19: A guide for nonpublicly accountable subsidiaries*. BDO Global Publications.

Brown, P., Preiato, J., & Tarca, A. (2014). Measuring country differences in the enforcement of accounting standards. *Journal of Business Finance & Accounting, 41*(1–2), 1–52.

Choi, F., & Meek, G. (2011). *International accounting* (7th ed.). Pearson.

Deloitte. (2024). *IFRS 19 — Reduced disclosure requirements for subsidiaries*. Deloitte Insights.

Evans, L., Gebhardt, G., & Hoogendoorn, M. (2005). Problems and opportunities of the IFRS for SMEs. *Accounting in Europe, 2*(1), 23–45.

EY. (2024). *IFRS 19 Implementation Guide*. Ernst & Young Global.

Healy, P. M., & Palepu, K. G. (2001). Information asymmetry, corporate disclosure, and capital markets. *Journal of Accounting and Economics, 31*(1–3), 405–440.

IFRS Foundation. (2024). *Basis for conclusions on IFRS 19*. IFRS Foundation Publications.

IFRS Foundation. (2024). *IFRS 19: Subsidiaries without public accountability — Disclosures*. IFRS Foundation Publications.
IFRS Foundation. (2024). *Illustrative examples: IFRS 19*. IFRS Foundation Publications.
International Accounting Standards Board. (2023). *Exposure Draft ED/2021/7: Subsidiaries without public accountability – Disclosures*. IASB Publications.
International Accounting Standards Board. (2024). *Project summary: Subsidiaries without public accountability*. IASB Publications.
KPMG. (2024). *Introducing IFRS 19: What you need to know*. KPMG Publications.
Nobes, C., & Parker, R. (2020). *Comparative international accounting* (15th ed.). Pearson.
Perera, M. H. B., & Chand, P. (2015). Issues in the adoption of IFRS for SMEs. *Pacific Accounting Review, 27*(2), 166–188.
PwC. (2024). *IFRS 19: Practical insights for subsidiaries*. PwC Inform.
Soderstrom, N. S., & Sun, K. J. (2007). IFRS adoption and accounting quality: A review. *European Accounting Review, 16*(4), 675–702.
Verrecchia, R. E. (2001). Essays on disclosure. *Journal of Accounting and Economics, 32*(1–3), 97–180.
Weygandt, J. J., Kimmel, P. D., & Kieso, D. (2021). *Financial accounting: IFRS edition*. Wiley.