Get ready for MFRS 19

Simplified financial reporting for eligible subsidiaries - Part 1

MFRS 19 'Subsidiaries without Public Accountability: Disclosures' (the Standard) creates a reduced set of disclosures that certain in-scope entities can elect to apply instead of the disclosure requirements set out in other MFRS Accounting Standards. However, what MFRS 19 does not do is change any of the recognition, measurement or presentation requirements set out in other MFRS Accounting Standards.

The objective of the Standard is to alleviate the reporting burden for eligible subsidiaries without public accountability. It achieves this by working alongside other MFRS Accounting Standards, with eligible subsidiaries applying the recognition, measurement and presentation requirements in other MFRS Accounting Standards, except for the disclosure requirements. Instead, the entity applies the requirements in this Standard.

Background

The release of the Standard was the final stage of the 'Disclosure Initiative – Targeted Standards-level Review of Disclosures' project, which came about due to subsidiaries struggling to meet the requirements for reporting information to their parent entity for their consolidated financial statements. When reporting to a parent that applies MFRS Accounting Standards in full, subsidiaries must apply all the recognition, measurement and presentation requirements in MFRS. This creates difficult circumstances for entities that qualify to apply MFRS for Small and Medium-Sized Entities (SMEs) for their standalone reporting. MFRS for SMEs has significantly fewer disclosure requirements than are required in the full application of MFRS Accounting Standards; however, in contrast to MFRS 19, the recognition and measurement requirements in the MFRS for SMEs Standard differ to those of full MFRS Accounting Standards. As a result, some subsidiaries choose not to take advantage of the reduced disclosures for MFRS for SMEs as it requires additional accounting to agree information reported to the parent entity using full recognition and measurement principles.

MFRS 19 aims to create a more attractive option for subsidiaries without public accountability. Eligible entities are now able to elect to apply MFRS 19, which allows for specific reduced disclosures in most topic areas.

MFRS 19 provides a solution that can alleviate the reporting burden for in-scope entities.

Principles used to develop the standard

In developing both the Exposure Draft and the final Standard, the Malaysian Accounting Standards Board (MASB) was guided by the six broad principles it used for the disclosure requirements in the MFRS for SMEs Accounting Standard:

1. **Short-term cash flows and obligations**
   Users of financial statements for eligible subsidiaries are particularly interested in information about short-term cash flows and obligations, commitments, or contingencies, whether or not they are recognised as liabilities.
2. **Liquidity and solvency**
   Users of financial statements for eligible subsidiaries also focus on information related to liquidity and solvency.
3. **Measurement uncertainties**
   Information about measurement uncertainties is important for eligible subsidiaries.
4. **Accounting policy choices**
   Details about an entity's accounting policy choices are relevant for eligible subsidiaries.
5. **Disaggregation of amounts**
   Disaggregation of amounts presented in eligible subsidiaries' financial statements are crucial for understanding those statements.
6. **Relevance to investment decisions**
   Some disclosures in the full set of MFRS Accounting Standards are more relevant to investment decisions in public capital markets than to the transactions and other events encountered by typical eligible subsidiaries.

Scope

Criteria to apply MFRS 19

In order to apply MFRS 19, an entity must meet all of the following criteria at the end of its reporting period:

- is a subsidiary
- does not have public accountability, and
- has a parent that produces consolidated financial statements available for public use that fully comply with MFRS Accounting Standards.

Public accountability

For purposes of applying MFRS 19, an entity has public accountability if:

- it has debt or equity instruments that are traded on a public market or is in the process of issuing such instruments, or
- holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary business activities. However, if an entity does so for reasons incidental to a primary business (eg sellers that receive payment in advance of delivery of goods or services), that does not make the entity have publicly accountability.

Electing or revoking an election to apply MFRS 19

Election and revocation

Entities can choose to apply MFRS 19 in a reporting period, and they have the flexibility to later revoke that election. Additionally, an entity may elect to apply MFRS 19 again after they have revoked their election.

Comparative information upon election

If an entity applies MFRS 19 in the current reporting period (but not in the immediately preceding period), it must provide comparative information for all amounts reported in the financial statements. This includes both quantitative amounts and the narrative or descriptive information necessary for understanding the current period's financial statements.

Comparative information upon revocation

If an entity applied MFRS 19 in the preceding reporting period but chooses not to apply it in the current period (while continuing to apply in full other MFRS Accounting Standards), it still needs to provide comparative information for the preceding period. The fact that MFRS 19 did not require disclosure of certain amounts in the preceding period for some items (which are now disclosed in the current period) is not a reason to omit comparative information for those items.

Other

The requirements for changes in accounting policies in MFRS 108 'Accounting Policies, Changes in Accounting Estimates and Errors' do not apply to electing or revoking to apply this Standard.

Disclosure requirements

General requirements

MFRS 19 includes reduced disclosures for almost all existing MFRS Accounting Standards, the details of which are specific to each impacted standard. To apply MFRS 19, entities will first apply the recognition, measurement and presentation requirements in each applicable MFRS Accounting Standard. The entity will then not apply the disclosure requirements in the applicable MFRS Accounting Standard, but will instead refer to MFRS 19 for required disclosures. However, an entity shall consider whether to provide additional disclosures when compliance with the specific requirements in this Standard is insufficient to enable users of financial statements to understand the effect of transactions and other events and conditions on the entity's financial performance and position.

Structure of MFRS 19

The disclosure requirements in MFRS 19 are organised into subsections relating to each MFRS Accounting Standard. A subsidiary applying MFRS 19 will apply an MFRS Accounting Standard to a transaction, other event or condition and then apply the disclosure requirements set out under the relevant subsection in MFRS 19. Within each subsection, MFRS 19 lists the reduced disclosure requirements and the requirements from the relevant MFRS Accounting Standard that remain applicable.

Compliance statement

An entity whose financial statements comply with MFRS Accounting Standards and the requirements of this Standard must explicitly and unreservedly state such compliance in the notes. When an entity applies this Standard, it should include a statement confirming this as part of the unreserved compliance statement. An entity cannot describe its financial statements as complying with MFRS Accounting Standards unless it adheres to the requirements of this Standard and all relevant requirements in other MFRS Accounting Standards.

Standards with no reduced disclosures

Disclosure requirements in other MFRS Accounting Standards that remain applicable to an entity applying this Standard are set out in this Standard. The MASB assessed each individual standard to determine whether to reduce disclosures and how best to do so while still meeting the fair presentation requirements and investor needs. The following standards do not have reduced disclosure requirements under MFRS 19 and the disclosures set out in each standard still apply:

- MFRS 133 'Earnings per Share'
- MFRS 8 'Operating Segments'
- MFRS 17 'Insurance Contracts'

Subsidiaries that are eligible to apply MFRS 19 are not required to apply these Standards but may do so voluntarily. If either are applied, the full disclosures required by these Standards will apply.

Interaction with MFRS 1 'First-time Adoption of International Financial Reporting Standards'

Application of MFRS 1

Entities apply MFRS 1 when preparing their first MFRS financial statements or when otherwise permitted to do so under MFRS 1. If an entity applies MFRS 1 for the first time, it must follow the disclosure requirements in paragraphs 21–30 of MFRS 19 instead of the requirements set out in paragraphs 23–33 of MFRS 1.

Interaction upon election of MFRS 19

Electing MFRS 19 does not automatically classify an entity as a first-time adopter of MFRS in MFRS 1. For instance, if an entity applied MFRS Accounting Standards (but not MFRS 19) in the immediately preceding reporting period and now applies MFRS 19, it is not considered a first-time adopter and does not apply MFRS 1 in the current period.

Interaction upon revocation of MFRS 19

If an entity revokes the election to apply MFRS 19 in the current reporting period, it does not apply MFRS 1 in that period if it previously provided an explicit and unreserved statement of compliance with MFRS as required by MFRS 19 (see above).

Maintenance of MFRS 19

Due to the nature of MFRS 19, it will need to be amended whenever there are any new or amended disclosure requirements in other MFRS Accounting Standards. To ensure that MFRS 19 is always up to date, any proposed amendments to MFRS 19 will be included in an exposure draft for the corresponding new or amended MFRS Accounting Standards. As part of this process, the MASB has said it will continue to apply the initial principles of MFRS 19 to determine whether new or amended disclosure requirements being proposed as part of MFRS Accounting Standards provide useful information to users of the financial statements of eligible subsidiaries and, therefore, whether to include those disclosures in MFRS 19.

To assist users in staying apprised of updates, **IFRS 19 disclosure tracker** is launched. This tracker will be updated in the future so it is important to check this tracker for any disclosure updates. Please note, this tracker requires an IFRS subscription.

Expected benefits of application of MFRS 19

Benefits for entities

Reduced disclosure requirements for eligible subsidiaries are expected to result in reduced time, cost and effort involved in preparing and auditing financial statements.

Benefits for jurisdictions

Application of MFRS 19 is expected to reduce reporting burdens and costs of doing business without compromising the information needs of users of the financial statements of eligible subsidiaries, making the jurisdiction more appealing to investors and businesses.

Long-term systemic benefits

Application of MFRS 19 is expected to improve the quality of eligible subsidiary financial statements and therefore the information provided to users, as well as to reduce the need for specialised knowledge of local Generally Accepted Accounting Practice (GAAP), reducing associated training and education costs in the reporting ecosystem and improving workforce mobility.

Appendix I

Appendix I contains an illustrative table comparing the number of required disclosures under full MFRS Accounting versus those disclosures when applying MFRS 19.

Comparison of the number of disclosure requirements between the relevant standard and MFRS 19

Standard	Number of required disclosures in the relevant standard	Number of required disclosures in MFRS 19
MFRS 2	27	12
MFRS 13	19	6
MFRS 15	36	20
MFRS 16	35	33
IAS 12	30	21

Please note

- The number of disclosures include each paragraph of the Standard in addition to any accompanying sub-paragraphs. For example, paragraph 45 of MFRS 2 has four sub-paragraphs (a to d), and each will be included in the number of disclosures counted. In addition, paragraph 45(b) has seven additional disclosures stated and these will be included in the above total. The total disclosures for paragraph 45 would therefore be ten.
- In addition, the above disclosure numbers do not include paragraphs that give contextual guidance. For example, paragraph 44 of MFRS 2 provides the objective of the disclosures required by the Standard. Paragraph 45 subsequently provides guidance on how to achieve the objective set out in Paragraph 44. To avoid double counting the disclosure, the requirement in paragraphs 44 and 45 would be considered one disclosure requirement.

Effective date of MFRS 19

The Standard is effective from annual reporting periods beginning on or after 1 January 2027, allowing eligible reporting entities and their auditors time to assess whether electing to apply MFRS 19 would benefit them. Early adoption of the Standard is permitted.

How we can help

We hope you find the information in this article helpful in giving you some insight into aspects of MFRS 19. If you would like to discuss any of the points raised, please speak to your usual Grant Thornton contact.

Grant Thornton

grantthornton.com.my