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The IASB Giveth, and the SEC Potentially Taketh Away: SEC Staff Addresses Reduced Level of Subsidiary Disclosures for Certain Foreign Private Issuers



Recently, SEC Corp Fin Director Erik Gerding and Chief Accountant Paul Munter took the fairly unusual step by issuing this [joint statement](#) about how to apply new IFRS 19 to SEC filings made by certain subsidiaries of foreign private issuers that file consolidated financial statements in accordance with the IFRS financial reporting framework. New IFRS 19 allows such subsidiaries that do not have "public accountability" to provide a reduced level of financial disclosure, which is addressed in this [announcement](#) issued earlier this month by the International Accounting Standards Board. [To access IFRS 19 itself, you must pay for it, as it's behind a [paywall](#); perhaps not the easiest way to make regulations available.]

Corp Fin Director Gerding and Chief Accountant Munter caution that SEC standards may require disclosure beyond IFRS 19 in order to adequately protect investors and to avoid misleading financial statements.

Here's an excerpt from the SEC Staff's statement: "As just one example, if a foreign private issuer files documents with the SEC related to a merger with a foreign business that qualifies for and elects to apply IFRS 19, and the registrant is required to provide financial statements of the foreign business, the foreign business is required by IFRS 19 to consider whether additional material disclosures need to be included in its financial statements to enable investors to understand the impact of transactions, other events, and conditions on the foreign business's financial position and financial performance.

The purpose of including the foreign business's financial statements in the SEC filing at the time of the transaction is to help investors better understand the nature and extent of the business being acquired and the resulting combined entity when making their voting or investment decisions. Given the purpose of inclusion of the foreign business's financial statements in the registration statement, the needs of investors would likely be similar to the needs of investors in an entity with public accountability.

In such a scenario, even though the foreign business may be eligible to and has elected to apply IFRS 19 in order to benefit from reduced disclosures, it should carefully consider whether it is nevertheless required to include additional material disclosures from other IFRS Accounting Standards to achieve the objectives of financial reporting given the use of those financial statements in a filing with the SEC."

Basically, a polite reminder that IFRS sits as a subset of larger accounting and SEC disclosure objectives.

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