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International Accounting Standards Board

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These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting:	**November 2008, London**
Project:	**Consolidation**
Subject:	**Consolidation: Sweep Issues—Separate Financial Statements (Agenda paper 16E)**

Introduction and staff recommendation

1 IAS 27 *Consolidated and Separate Financial Statements*, as its title suggests, includes requirements relating specifically to separate financial statements.[1] Because the objective of the consolidation project is to publish an IFRS to replace IAS 27 and SIC-12 *Consolidation—Special Purpose Entities,* the Board needs to address what happens to those requirements in the consolidation exposure draft.

2 We recommend that the paragraphs in IAS 27 relating to separate financial statements are included in the consolidation exposure draft as appendix C, as set out in paragraph 12 of this paper.

[1] Paragraphs 38 – 40 of IAS 27 set out the accounting for investments in subsidiaries, jointly controlled entities and associates in separate financial statements, and paragraphs 42 and 43 set out disclosure requirements for separate financial statements.

Staff analysis

3 In considering the requirements in IAS 27 on separate financial statements, we think that there are five options:

a to include the paragraphs relating to separate financial statements in the main body of the exposure draft, similar to IAS 27.

b to include the paragraphs relating to separate financial statements in an appendix of the exposure draft.

c to replace all other paragraphs of IAS 27 with an IFRS on consolidated financial statements, and leave only those paragraphs relating to separate financial statements in IAS 27. Therefore, the new IFRS would be titled *Consolidated Financial Statements* and IAS 27 would be titled *Separate Financial Statements*.

d to find an appropriate 'home' for the paragraphs relating to separate financial statements in other IFRSs.

e to delete or change the requirements for separate financial statements.

4 We think that it is beyond the scope of this project to delete or propose any changes to the requirements for separate financial statements in IAS 27. Any such changes to the requirements, if changes are needed, should be discussed as part of a wider project on separate financial statements. Therefore, we do not recommend option e above.

5 Ideally, we would prefer not to combine, in one IFRS, requirements for consolidated financial statements together with those for separate financial statements. We think that the best answer would be to have one IFRS addressing consolidated financial statements and one addressing separate financial statements. This solution would also assume that the IFRS for separate financial statements would address the topic more comprehensively than is currently the case in IAS 27.

6 The closest of the options listed in paragraph 3 above to that ideal solution is option c—to leave the paragraphs relating to separate financial statements in IAS 27, while replacing all of the other paragraphs of IAS 27 with an IFRS on consolidated financial statements. Constituents would clearly see that the requirements are unchanged, and

effectively, have not been considered as part of this project. This option would mean, however, that IAS 27 would be a standard of nine paragraphs.

7 Option d also has some merit. If we could find an appropriate 'home' for the requirements relating to separate financial statements in other IFRSs, the new IFRS would relate to consolidated financial statements only and there would be no need to retain IAS 27 solely for the sake of nine paragraphs. The difficulty, of course, is in finding an appropriate home.

8 IAS 39 *Financial Instruments: Recognition and Measurement* is the only obvious candidate for the accounting requirements relating to separate financial statements (paragraphs 38-40 of IAS 27 and paragraph 12, C2-C7 of this paper set out those accounting requirements). The accounting requirements relate to investments in subsidiaries, jointly controlled entities and associates, which are financial assets. In addition, the requirements allow a measurement choice of cost or in accordance with IAS 39. Therefore, these paragraphs could be incorporated within IAS 39.[2] We would suggest that the disclosure requirements relating to separate financial statements would fit best within IAS 1 *Presentation of Financial Statements* (paragraphs 42-43 of IAS 27 and paragraph 10, C8-C9 of this paper set out those disclosure requirements).

9 The inclusion of the paragraphs relating to separate financial statements within IAS 1 and IAS 39, however, has some downsides:

a Including the requirements relating to separate financial statements in more than one IFRS is more difficult for constituents to locate.

b This option places more guidance in IAS 39, which already covers more than 300 pages of the Bound Volume.

10 Therefore, we recommend option b—to include the paragraphs relating to separate financial statements in an appendix to the exposure draft. This means that the requirements relating to separate financial statements would be carried forward in the

[2] If the Board decides to take option d and incorporate the accounting requirements in IAS 39, we would recommend that paragraph C2 (within paragraph 12 of this paper) is included as an amendment to paragraph 46

exposure draft, unchanged from IAS 27, and would be presented in one place. The paragraphs would however be separate from the requirements for consolidated financial statements, which we think is an improvement to including them along side the requirements for consolidated financial statement in the main body of the exposure draft (option a).

11 The inclusion of all requirements relating to separate financial statements in an appendix would facilitate review by constituents, and if necessary, we could ask a specific question in the Invitation to Comment regarding the location of the requirements relating to separate financial statements.

of IAS 39, and paragraphs C3-C7 (within paragraph 10 of this paper) are included as application guidance to IAS 39.

12 Our recommendation would be set out as follows in the exposure draft:[3]

Appendix C - Separate Financial Statements

C1 This Standard does not mandate which entities produce separate financial statements available for public use. Paragraphs C2 to C9 apply when a reporting entity prepares separate financial statements that comply with International Financial Reporting Standards. The reporting entity also produces consolidated financial statements available for public use as required by paragraph [X], unless the exemption provided in paragraph [X] is applicable.

C2 **When separate financial statements are prepared, investments in subsidiaries, jointly controlled entities and associates that are not classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* shall be accounted for either:**

(a) **at cost, or**

(b) **in accordance with IAS 39.**

C3 **The same accounting shall be applied for each category of investments. Investments in subsidiaries, jointly controlled entities and associates that are classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5 shall be accounted for in accordance with that IFRS.**

C4 **A reporting entity shall recognise a dividend from a subsidiary, jointly controlled entity or associate in profit or loss in its separate financial statements when its right to receive the dividend is established.**

C5 When a parent reorganises the structure of its group by establishing a new legal entity as its parent in a manner that satisfies the following criteria:

(a) the new parent obtains control of the original parent by issuing equity instruments in exchange for existing equity instruments of the original parent;

(b) the assets and liabilities of the new group and the original group are the same immediately before and after the reorganisation; and

(c) the owners of the original parent before the reorganisation have the same absolute and relative interests in the net assets of the original group and the new group immediately before and after the reorganization and the new parent accounts for its investment in the original parent in accordance with paragraph C2(a) in its separate financial statements, the new parent shall measure cost at the carrying amount of its share of the equity items shown in the separate financial statements of the original parent at the date of the reorganisation.

C6 Similarly, an entity that is not a parent might establish a new entity as its parent in a manner that satisfies the criteria in paragraph C5. The requirements in paragraph C5 apply equally to such reorganisations. In such cases, references to 'original parent' and 'original group' are to the 'original entity'.

[3] Paragraphs C1-C9 are unchanged from paragraphs 38-40 and 42-43 of IAS 27.

C7 **Investments in jointly controlled entities and associates that are accounted for in accordance with IAS 39 in the consolidated financial statements shall be accounted for in the same way in the investor's separate financial statements.**

C8 **When separate financial statements are prepared for a parent that, in accordance with paragraph [X], elects not to prepare consolidated financial statements, those separate financial statements shall disclose:**

(a) **the fact that the financial statements are separate financial statements;**

(b) **that the exemption from consolidation has been used;**

(c) **the name of the entity whose consolidated financial statements that comply with International Financial Reporting Standards have been produced for public use;**

(d) **the country of incorporation or residence of that entity;**

(e) **the address where those consolidated financial statements are obtainable**

(f) **a list of significant investments in subsidiaries, jointly controlled entities and associates, including:**

(i) **the name,**

(ii) **the country of incorporation or residence,**

(iii) **the proportion of ownership interest and, if different, proportion of voting power held; and**

(iv) **a description of the method used to account for each investment.**

C9 **When a parent (other than a parent covered by paragraph C8), venturer with an interest in a jointly controlled entity or an investor in an associate prepares separate financial statements, those separate financial statements shall disclose:**

(a) **the fact that the statements are separate financial statements and the reasons why those statements are prepared if not required by law.**

(b) **a list of significant investments in subsidiaries, jointly controlled entities and associates, including:**

(i) **the name of each investee;**

(ii) **its country of incorporation or residence,**

(iii) **the proportion of ownership interest held by the reporting entity;**

(iv) **the proportion of voting power held by the reporting entity, if it is not the same as its ownership interest; and**

(v) **a description of the method used to account for the investment.**

(c) **the identity of the financial statements prepared in accordance with paragraph [X] of this Standard or IAS 28 and IAS 31 to which they relate.**