IFRIC Meeting

Staff Paper

Agenda reference	**8B**
Date	**November 2009**

Project	**IAS 27 Consolidated and Separate Financial Statements**
Topic	**Combined Financial Statements and Redefining the Reporting Entity**

Introduction

1. In October 2009 the staff received a request for the IFRIC to consider issues related to combined financial statements and redefining the reporting entity in accordance with IFRS.

2. In October 2009 the staff also received a request for the IFRIC to consider a related issue regarding the presentation of comparatives when applying the 'pooling of interests' method for business combinations between entities under common control by entities preparing financial statements in accordance with IFRS. That issue is included in Agenda Paper 8A. In the staff's opinion, both Agenda Paper 8A and this Agenda Paper should be reviewed and considered together given the inter-relationship of the issues.

3. The purpose of this Agenda Paper includes:

   (a) Background of the issues;

   (b) Staff analysis and recommendations; and

   (c) Questions for the IFRIC.

Background

4. The issues relate to:

This paper has been prepared by the technical staff of the IASCF for discussion at a public meeting of the IFRIC.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IFRIC or the IASB. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRIC or the IASB can make such a determination.

Decisions made by the IFRIC are reported in IFRIC *Update*.

Interpretations are published only after the IFRIC and the Board have each completed their full due process, including appropriate public consultation and formal voting procedures. The approval of an Interpretation by the Board is reported in IASB *Update*.

(a) **Issue 1** – the ability to 'include a **selection of entities** that are under common control, rather than being restricted to a parent/subsidiary relationship [defined] by IAS 27' (i.e. '**combined financial statements**') in financial statements prepared in accordance with IFRS, and

(b) **Issue 2** – the ability in accordance with IFRS for a '**reporting entity to be redefined** to exclude entities/ businesses that have been carved-out of a group'.

5. The submission is included in Appendix B without modification for reference.

Staff Analysis and Recommendations

General information

6. The staff notes that IFRS does not provide specific guidance on the accounting for common control transactions. Specifically, IFRS 3 *Business Combinations* (revised 2008) excludes from its scope business combinations between entities under common control.

7. In December 2007, the IASB added a project to its agenda on *Common Control Transactions*. At the present time, the project is listed in the 'Research and Other Projects' section of the IASB's Work Plan and the timing of the next steps in the project are not certain.

8. Additionally, for reference, this Agenda Paper presumes all transactions are not transitory in nature. The staff notes the IFRIC's March 2006 agenda decision on 'transitory' common control transactions. If the transaction is deemed to be transitory, the staff recommendation is to refer to the March 2006 agenda decision.

Question 1 – Active Project
Given the Board has a project on Common Control Transactions, does the IFRIC desire to discuss these issues further?

Issue 1 – Combined Financial Statements

9. In the staff's opinion, issue 1 relates the proper determination of the 'reporting entity'. The IASB and FASB currently have a joint project on the conceptual framework. Phase D *The Reporting Entity* of the conceptual framework project addresses the reporting entity. In May 2008, the IASB published a discussion paper on Phase D stating, in part :

> 1 The boards' existing conceptual frameworks do not include a reporting entity concept. The IASB's *Framework for the Preparation and Presentation of Financial Statements* defines the reporting entity in one sentence with no further explanation.* The FASB's *Statements of Financial Accounting Concepts* do not contain a definition of a reporting entity or discussion of how to identify one. As a result, neither framework specifically addresses the reporting entity concept. The objective of this phase of the project is to develop a reporting entity concept for inclusion in the boards' common conceptual framework.
>
> 2 Despite this lack of an explicit reporting entity concept, an implicit reporting entity concept exists. In particular, there are accounting standards and practices relating to the composition of, and financial reporting by, a group reporting entity. (The term *group reporting entity* is used in this discussion paper to refer to an entity that comprises two or more entities, such as two or more corporations, that are presented as a single unit.) Existing accounting standards and practices serve as a starting point for considering and developing a reporting entity concept because they were developed as a means of providing useful information to equity investors, lenders and other capital providers. However, they are not precedents or constraints for the boards' common conceptual framework.

10. An exposure draft for Phase D of the conceptual Framework is expected to be published in quarter 4, 2009 and the final chapter is expected to be published by the end of 2010. The exposure draft will describe combined financial statements.

11. The primary purpose of general purpose financial statements prepared in accordance with IFRS is for external users. IAS 27 *Consolidated and Separate Financial Statements* provides additional insight into the grouping and structure of entities. IAS 27 states, in part:

> 1 This Standard shall be applied in the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent.

> 3 This Standard shall also be applied in accounting for investments in subsidiaries, jointly controlled entities and associates when an entity elects, or is required by local regulations, to present separate financial statements.
>
> 4 The following terms are used in this Standard with the meanings specified:
>
> *Consolidated financial statements* are the financial statements of a group presented as those of a single economic entity.
>
> A *group* is a parent and all its subsidiaries.
>
> 12 Consolidated financial statements shall include all subsidiaries of the parent.

12. Paragraphs 10-12 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provide guidance 'in the absence of an IFRS that specifically applies to a transaction, other event or condition'. Those paragraphs require management to use its judgement in developing and applying an accounting policy that provides relevant and reliable financial statement information. Once an entity has developed an accounting policy, it should be applied consistently to similar transactions.

13. In the staff's opinion, while the notion of 'reporting entity' is not explicitly stated, the principle is consistently applied throughout IFRSs. Further, IAS 1 *Presentation of Financial Statements* requires entities stating compliance with IFRS to make an explicit and unreserved statement of such compliance…with all the requirements of IFRSs. IAS 27 does provide explicit guidance regarding the composition of both the consolidated financial statements and the separate financial statements, both of which are based on the financial position and results of operations of the reporting entity issuing the financial statements (inclusive of the effects of all subsidiaries, joint ventures and associates and exclusive of the effects of all entities for which those relationships do not exist).

14. The practices that have developed as the basis for the preparation of combined financial statements include a focus on economic activities as the basis for preparation. Economic activities that are managed on a combined, closely coordinated basis are included in the combined financial statements. The primary focus is therefore on the economic activities, with a secondary focus on

the entities through which those activities are conducted. For practical purposes, all entities that conduct those activities are included in the combined financial statements. Compliance with IAS 27 is maintained by ensuring that all subsidiaries of those entities included in the combined financial statements are consolidated.

15. The focus on economic activities in determining what is included in financial statements has parallels with the approach taken in IAS 31 *Interests in Joint Ventures*. IAS 31 defines control, joint control and significant influence in terms of:
    a) the power to govern the financial and operating policies of an economic activity so as to obtain benefits from it
    b) the contractually agreed sharing of control over an economic activity
    c) the power to participate in the financial and operating policy decisions of an economic activity…
    respectively.

16. The IASB project on joint arrangements carries forward this focus on activities. The consolidations project has a combined focus on the entity and its activities. The definition of control currently being used in the redeliberations of ED 10 *Consolidated Financial Statements* is: 'A reporting entity controls another entity when the reporting entity has the power to direct the activities of that other entity to generate returns for the reporting entity'.

17. Managing economic activities on a combined, closely coordinated basis typically requires a common ultimate parent or controlling shareholder. Alternatively a contractual agreement between the entities being combined may be used. Such an agreement sets out the how the activities will be managed on a combined, closely coordinated basis.

18. Alternative opinions exist in support of combined financial statements:

    (a) There is no specific guidance in IFRSs regarding the accounting for combined financial statements. Therefore, use of paragraphs 10-12 of IAS 8 and analogy to other recent accounting pronouncements of standard-setting bodies is appropriate provided those pronouncements

are not inconsistent with IFRSs and the Framework. Specifically, US GAAP provides guidance regarding combined financial statements that is specific to SEC Registrants at ASC 505-60-S99-1 (SEC Staff Accounting Bulletin Topic 5.Z.7 *Accounting for the Spin-off of a Subsidiary*). This guidance provides a detailed list of criteria that, if satisfied, the SEC staff have previously not objected to the financial statements of the retained business being retroactively restated to reflect the reorganisation of the business as a change in the reporting entity. (The entire guidance has been reproduced in 'Appendix BB to the original submission' which is included as a component of Appendix A.)

(b) There is (basically) no guidance on the definition of a 'reporting entity' in IFRSs. One of the purposes of IFRS financial statements, as stated in paragraph 9 of IAS 1, is to 'show the results of management's stewardship of the resources entrusted to it.' Full compliance with the provisions of IAS 27 (and all other IFRSs) can be achieved in addition to the combining of two or more entities under common control provided the intent is to faithfully report the results of the economic activities under the control of a common management structure.

(c) The entity may determine that one of the combined entities is deemed to be the reporting entity and the 'deemed parent company' effectively has control of the other entities that are combined for reporting purposes.

19. In the opinion of some staff, combined financial statements are not consistent with IFRSs. In their opinion, to the extent an entity desires to create combined financial statements, those statements would be deemed to be 'special purpose financial reports' as stated in paragraph 6 of the Framework. Alternatively, other staff have the opinion that combined financial statements are consistent with IFRSs provided the 'reporting entity' can be adequately defined to report the results of that entity's economic activities.

Question 2 – Combined Financial Statements
Does the IFRIC agree that combined financial statements are not consistent with IFRSs? If no, does the IFRIC believe that one of the alternative opinions properly supports the notion of combined financial statements prepared in accordance with IFRS? What other rationale does the IFRIC note for its support, if so?

Issue 2 – Restating the Reporting Entity

20. Paragraph 34 of IAS 27 states, in part, that 'if a parent loses control of a subsidiary, it derecognizes the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost'.

21. Paragraph 40 of IFRS 5 states:

> An entity shall not reclassify or re-present amounts presented for non-current assets or for the assets and liabilities of disposal groups classified as held for sale in the statements of financial position for prior periods to reflect the classification in the statement of financial position for the latest period presented.

22. In the staff's opinion, IFRS provides sufficient guidance regarding the treatment of the retained business.

23. Additionally, the inquiry referenced US GAAP specific to SEC Registrants, specifically, ASC 505-60-S99-1 (SEC Staff Accounting Bulletin Topic 5.Z.7 *Accounting for the Spin-off of a Subsidiary*). This guidance provides a detailed list of criteria that, if satisfied, the SEC staff have previously not objected to the financial statements of the retained business being retrospectively restated to reflect the reorganisation of the business as a change in the reporting entity.

24. In the staff's opinion, ASC 505-60-S99-1 should not be used by analogy through reference to paragraph 11 of IAS 8. ASC 505-60-S99-1 is an exception to the general requirements of US GAAP and is not consistent with other IFRSs. Additionally, other IFRSs already provide guidance on 'similar and related issues'. In the staff's opinion, the IFRS guidance requires that the effect of the disposal / spin off is presented prospectively from the date when control is lost.

Question 3 – Redefining the Reporting Entity
Does the IFRIC agree that current IFRSs provide guidance on the accounting for the effects on the reporting entity of a disposal or spin off?

IFRIC Agenda Criteria

25. The staff's preliminary assessment of the agenda criteria is as follows:

    (a) *Is the issue widespread and practical?*

        (i) Issue 1 – Combined Financial Statements – Yes. In the staff's opinion, the issue could arise in many jurisdictions as IFRSs do not provide specific guidance on these transactions.

        (ii) Issue 2 – Restating the Reporting Entity – Yes. In the staff's opinion, the issue could arise in many jurisdictions as IFRSs do not provide specific guidance on these transactions.

    (b) *Does the issue involve significantly divergent interpretations (either emerging or already existing in practice)? The IFRIC will not add an item to its agenda if IFRSs are clear, with the result that divergent interpretations are not expected in practice.*

        (i) Issue 1 – Combined Financial Statements – No. In the staff's opinion, significant diversity in interpretations does not exist as current practice has provided non-authoritative guidance as evidenced by the various publications of international accounting firms.

        (ii) Issue 2 – Redefining the Reporting Entity – No. In the staff's opinion, IFRS provides sufficient guidance regarding the treatment of the retained business.

    (c) *Would financial reporting be improved through elimination of the diversity?*

        (i) Issue 1 – Combined Financial Statements – Yes. These are often material transactions and authoritative guidance

creating consistency of preparation and use of IFRS financial statements is important.

(ii) Issue 2 – Redefining the Reporting Entity – Yes. These are often material transactions and authoritative guidance creating consistency of preparation and use of IFRS financial statements is important.

(d) *Is the issue sufficiently narrow in scope to be capable of interpretation within the confines of IFRSs and the* Framework for the Preparation and Presentation of Financial Statements*, but not so narrow that it is inefficient to apply the interpretation process?*

(i) Issue 1 – Combined Financial Statements – Yes. The issue is sufficiently narrow in scope, although the staff await deliberation by the IFRIC for consideration of whether there is sufficient guidance within (or outside of IFRSs) to apply the interpretation process.

(ii) Issue 2 – Redefining the Reporting Entity – Yes. The issue is sufficiently narrow in scope, although the staff await deliberation by the IFRIC for consideration of whether there is sufficient guidance within (or outside of IFRSs) to apply the interpretation process.

(e) *If the issue relates to a current or planned IASB project, is there a pressing need for guidance sooner than would be expected from the IASB project? (The IFRIC will not add an item to its agenda if an IASB project is expected to resolve the issue in a shorter period than the IFRIC would require to complete its due process.)*

(i) Issue 1 – Combined Financial Statements – Yes. The IASB has a current project on Common Control Transactions; however, it has no current timeline associated with it. The IASB also has a current project on the Conceptual Framework. An exposure draft for phase D *Reporting Entity* is due to be published in quarter 4, 2009. The final chapter for phase D is scheduled to be published in the second half of 2010. Consideration of the reporting entity would be central to any interpretation that

the IFRIC might develop on this issue. It is unlikely that the IFRIC would develop an interpretation much in advance of the finalisation of the reporting entity chapter of the Conceptual Framework. This project includes consideration of combined financial statements.

(ii) Issue 2 – Redefining the Reporting Entity – Yes. The IASB has a current project on Common Control Transactions; however, it has no current timeline associated with it. The IASB also has a current project on the Conceptual Framework. An exposure draft for phase D *Reporting Entity* is due to be published in quarter 4, 2009. The final chapter for phase D is scheduled to be published in the second half of 2010. Consideration of the reporting entity would be central to any interpretation that the IFRIC might develop on this issue. It is unlikely that the IFRIC would develop an interpretation much in advance of the finalisation of the reporting entity chapter of the Conceptual Framework

26. In the staff's opinion, based on the assessment of the agenda criteria, certain key criteria are not satisfied. Therefore, the staff recommends that the IFRIC not add the issue to its agenda.

27. The staff has proposed wording for a tentative agenda decision. The tentative agenda decision wording is set out in Appendix B.

Question 4 – IFRIC Agenda Criteria
Does the IFRIC agree with the staff recommendation not to add the issue to its agenda? If not, why not and what approach would the IFRIC like to follow?

Appendix A – IFRIC Submission

A1. The IFRIC submission received by the staff has been included below without modification (except for removal of submitter contact information).

> [The submitter] request[s] IFRIC to address the following issue with respect to the preparation of 'carve-out' and 'combined' financial statements.
>
> **The issue:**
>
> It is common for a group to spin-off part of its operations or activities, by carving out an element of its business activities and then undertaking an initial public offering of these businesses, or by selling these businesses as a unit to another entity. In some cases the businesses that will be spun-off are contained in separate legal entities within an existing group, while in other cases they are only part of the business activities undertaken by a legal entity.
>
> In these scenarios, historical financial information is generally needed for either or both of the following:
>
> - **The carved-out business -** The new combined business made up of the entities/parts of entities that are to be spun off.
>
>   Where the business activities are transferred to a newly created entity or elsewhere within the group, this will be a business combination between entities under common control (a reorganisation), at the date it occurs. Such a transaction is outside of the scope of IFRS 3 *Business Combinations*. However, in many instances, the historical information is needed for including in a prospectus for a period ended **before** the actual transaction occurs (ie the reorganisation).
>
>   At the time of the reorganisation, and in the absence of guidance within IFRS for accounting for such transactions, reference is made to US Accounting Standards Codification (ASC) Topic 805 (pre-Codification FASB Statement No. 141R, *Business Combinations),* whereby the pooling of interests method is applied. In such cases, comparatives will be restated as if the entities had always been combined (since being under common control).
>
>   Alternatively, if the businesses are being transferred together outside of the group, rather than to another entity within the group first, it will not qualify for a business combination between entities under common control. However, as the businesses are being transferred together and likely accounted for as 'one acquisition' by the acquirer, historical information is often needed for reporting to some stock exchanges, for example the SEC, as if it was one business.

- **The retained business -** the business without the entities/parts of entities that are to be spun off or have been spun off. In this case, the question is whether the reporting entity can be redefined so as to exclude the businesses that have been sold or carved out.

Appendix A[A to the original submission] contains some common scenarios that arise in practice, and illustrate the practical issues that arise from such activities.

Current practice:

Differing views exist as to whether or not historical information prepared for the carved-out business and the retained business are in compliance with IFRS, as noted below.

Issue 1: The carved-out business

View A

Financial statements that present the combined business as one entity, for a reporting period ended before the reorganisation occurs are not in accordance with IFRS. This is because the combined business does not meet the definition of a group as per IAS 27 (ie there is no parent/ subsidiary relationship). The reorganisation in this case is a non-adjusting subsequent event.

View B

Financial statements that present the combined business as one entity, for a reporting period ended before the reorganisation occurs can be in accordance with IFRS when:

- the reorganisation has actually taken place before the financial statements are issued, and

- in a subsequent period, the reorganisation will be accounted for using the pooling of interest method,

While the combined business does not meet the definition of a group as per IAS 27 (as noted in view A), application of the pooling method results in a restatement of the financial statements of the 'entity'. As the reorganisation is complete before the financial statements are issued, the financial statements represent the restated financial position of the group, rather than the reorganisation being an adjusting subsequent event.

View C

Financial statements that present the combined business as one entity, for a reporting period ended before the reorganisation occurs can be in accordance with IFRS only when the businesses that are combined:

- have an existing common ownership structure;
- have an existing common board of directors for all material operational, financing and investing decisions; and
- are already integrated for operational purposes, and are not integrated with the other operations of the businesses that are retained.

That is, IAS 27 does not restrict the determination of the reporting entity.

View D

Financial statements that present the combined business as one entity can be produced for entities that are under common control. IAS 27 only addresses consolidated financial statements. Combined financial statements are out of the scope of IAS 27. Accordingly, reference is required to the Framework rather than IAS 27. As there is no definition of a reporting entity, and specific guidance exists in other financial reporting frameworks, this may be referred to. In such cases, reference can be made to US GAAP ASC 810-10-55-1B which states:

> 'There are circumstances, however, in which combined financial statements (as distinguished from consolidated financial statements) of commonly controlled entities are likely to be more meaningful than their separate financial statements. For example, combined financial statements would be useful if one individual owns a controlling financial interest in several entities that are related in their operations. Combined financial statements might also be used to present the financial position and results of operations of entities under common management.'

Issue 2: The retained business

Divergent views have emerged as to how to interpret what the reporting entity is in such situations:

View A

The reporting entity is interpreted in a narrow sense, with the boundaries drawn based on the legal framework within which the entity exists. Therefore in both of the scenarios in Appendix A[A of the original submission], the Parent and all of its controlled subsidiaries make up the reporting entity. The fact that a subsidiary will be sold off, or a business within the legal entity will be sold off is not a reason for excluding the financial information relating to that business – rather it is likely to qualify as a discontinuing operation, with the financial information measured and presented in accordance with IFRS 5 *Non-current assets held for sale and discontinued operations*.

View B

The reporting entity is interpreted in a broad sense, with the boundaries drawn based on the business that is being conducted. Therefore, to the extent the carve-out businesses meets the conditions noted in View C above, it can be excluded from the other businesses in defining the reporting entity.

This view is reached by analogy to IFRS 3. IFRS 3 applies when a business is acquired. If a business can be acquired, then by reverse analogy, the business is able to be reported on in its own right, hence can constitute a reporting entity.

Therefore, in the scenarios in Appendix A[A of the original submission](assuming that the carved-out businesses meet the conditions of View C above), the businesses to be carved out can be excluded from the financial report to be prepared for the remaining business.

This view is also supported by reference to US GAAP ASC 505-60-S99-1 (the full text of which is included in Appendix B[B of the original submission]), which allows the financial statements to reflect a change in the reporting entity in the following limited circumstance:

- the spin–off transaction occurs prior to effectiveness of the registration statement;

- the Company and the subsidiary are in dissimilar businesses (which is broader than a different segment), have been managed and financed historically as if they were autonomous, have no more than incidental common facilities and costs, will be operated and financed autonomously after the spin–off, and will not have material financial commitments, guarantees, or contingent liabilities to each other after the spin–off; and

- the financial statements of the group for periods before the spin-off have not been widely distributed.

<u>Reasons for the IFRIC to address the issue:</u>

As can be seen in the section above, there are diverse views relating to the ability to prepare carve-out and/or combined financial statements in accordance with IFRS. These diverse views are shared by preparers, accounting firms and regulators alike, meaning that the same set of financial statements may be accepted to be in accordance with IFRS in some jurisdictions, while in others they are not.

As more countries are adopting IFRS, there is increasing pressure from regulators around the world to have financial information included in prospectuses to be stated to be in accordance with IFRS. In some situations, in particular the US SEC, the regulator has

required, for the purposes of applying US GAAP, combined financial statements for the carved-out group and a redefined reporting entity for the retained business in certain circumstances, and would expect such practice to continue.

The Board currently has two projects on its agenda that relate to the above topics:

- common control transactions –work on this project has not yet commenced; and

- reporting entity – Phase D of the Conceptual Framework - an exposure draft is due to be issued later this year.

It is not yet clear whether either of these projects will address any of these issues noted. Even if these projects do address the issue, we expect that there will be an increase in the number of spin-off transactions that occur before this Chapter of the Framework, or any standards on accounting for common control transactions become effective, with increased pressure from the Regulators, and increased divergence of practice.

However, as the business community is facing practical issues today, and we believe that IFRIC can enhance financial reporting by providing indicators of practices that they do and do not consider to be in conformity with IFRS by answering the following questions:

1. Can the reporting entity be identified to include a selection of entities that are under common control, rather than being restricted to a parent/subsidiary relationship by IAS 27 (Issue 1)?

    a. If the IFRIC concludes no, does IFRIC believe that a reorganisation that occurs after the reporting period but before the financial statements are issued can be reflected in those financial statements and stated to be in accordance with IFRS on the basis that the pooling of interests method will result in a restatement of information once the reorganisation has taken place?

    b. If the IFRIC concludes yes, when considering scenario 3 in Appendix A[A to original submission], does IFRIC believe the exclusion of Subsidiary Z would result in financial statements being in compliance with IFRS?

2. Does IFRIC believe that IFRS permits the reporting entity to be redefined to exclude entities/businesses that have been carved-out of a group (Issue 2)?

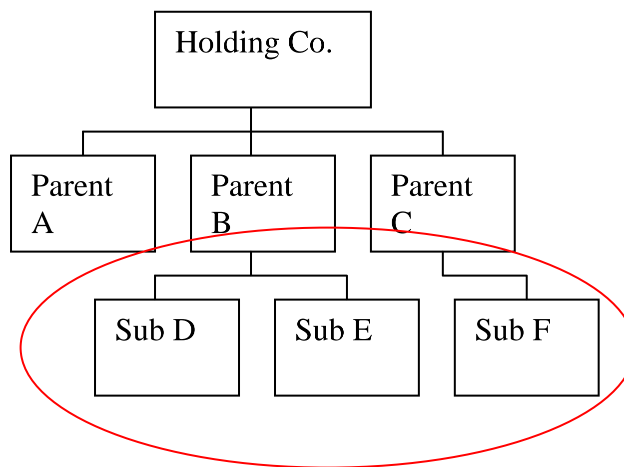
Appendix A[A to original submission]

Scenario 1:

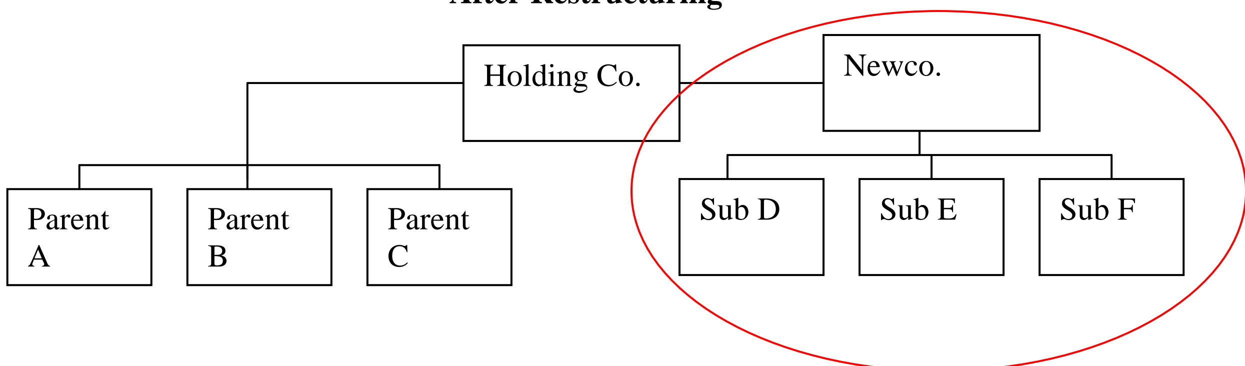
The existing structure is shown below. Subsidiaries A, B and C operate in a similar line of business which is being sold off as a separate group, by being transferred as subsidiaries of a separate legal entity to be created – circled in red.

1. Can a set of financial statements be prepared in accordance with IFRS for Subsidiaries D, E and F as a single reporting entity prior to the reorganisation occurring?
2. Can Holding Co., with Parents A, B and C prepare a set of financial statements in accordance with IFRS, excluding Subsidiary D, E and F from the historical financial information (that is, result in a new reporting entity being established)?

Before Restructuring



After Restructuring



Scenario 1a:

An alternative is for Subsidiaries D, E and F to be sold as a group without creating Newco. Some regulators require reporting of the combined historical information in accordance with a framework. For example, SEC Rule 3.05 requires financial information of the 'target' (in this case, the group of Subsidiary D, E and F) to be presented as combined financial statements.

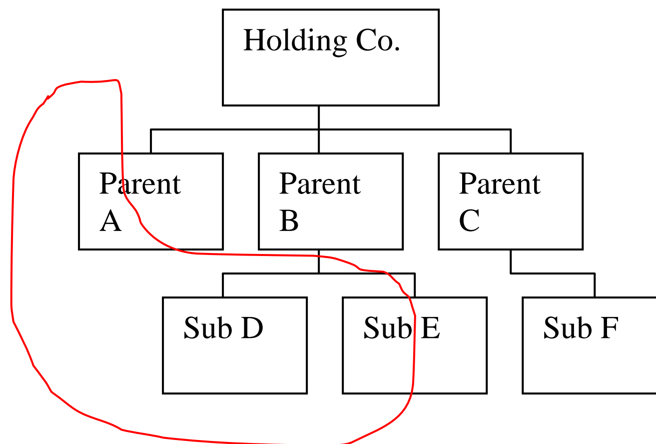
Can these combined financial statements be in accordance with IFRS?

Scenario 2:

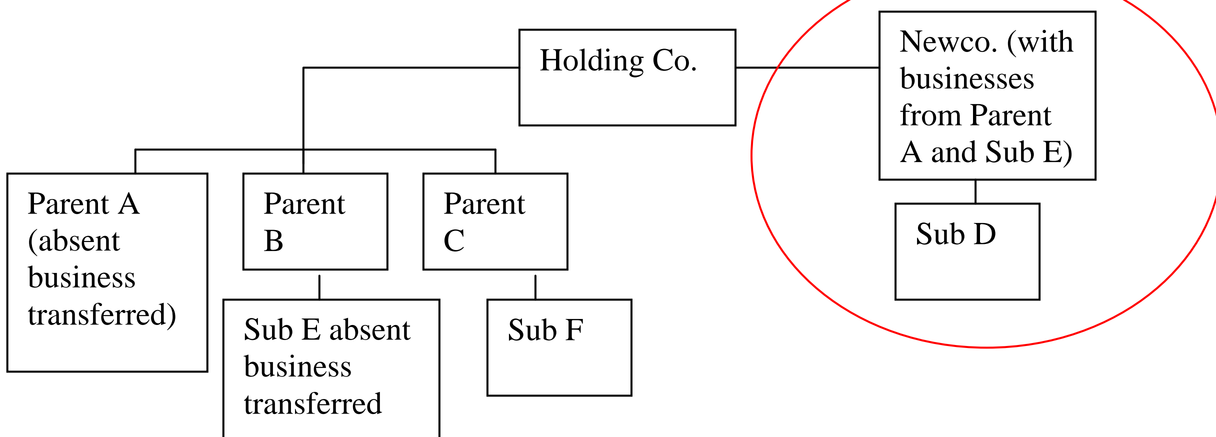
The existing structure is shown below. Subsidiary D, some of the activities within Subsidiary E and some of the activities in Parent A are in the same line of business which is being sold off as a separate group, by being transferred as subsidiaries of a separate legal entity to be created – circled in red. The line of business in Subsidiary E and in Parent A constitute a 'business' as defined in IFRS 3.

1. Can a set of financial statements be prepared in accordance with IFRS for Subsidiary D, and the businesses within Subsidiary E and Parent A that are being disposed of, prior to the reorganisation occurring?
2. Can Holding Co., Parent A and Parent B prepare a set of financial statements in accordance with IFRS, excluding the operations 'carved out' from the historical financial information (that is, result in a new reporting entity being established)?

Before Restructuring



After Restructuring



Scenario 2a:

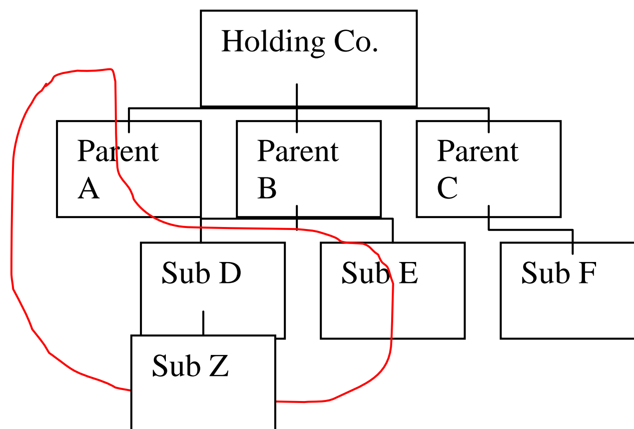
Similar to scenario 1a, the business is sold as a group, rather than a Newco being established.

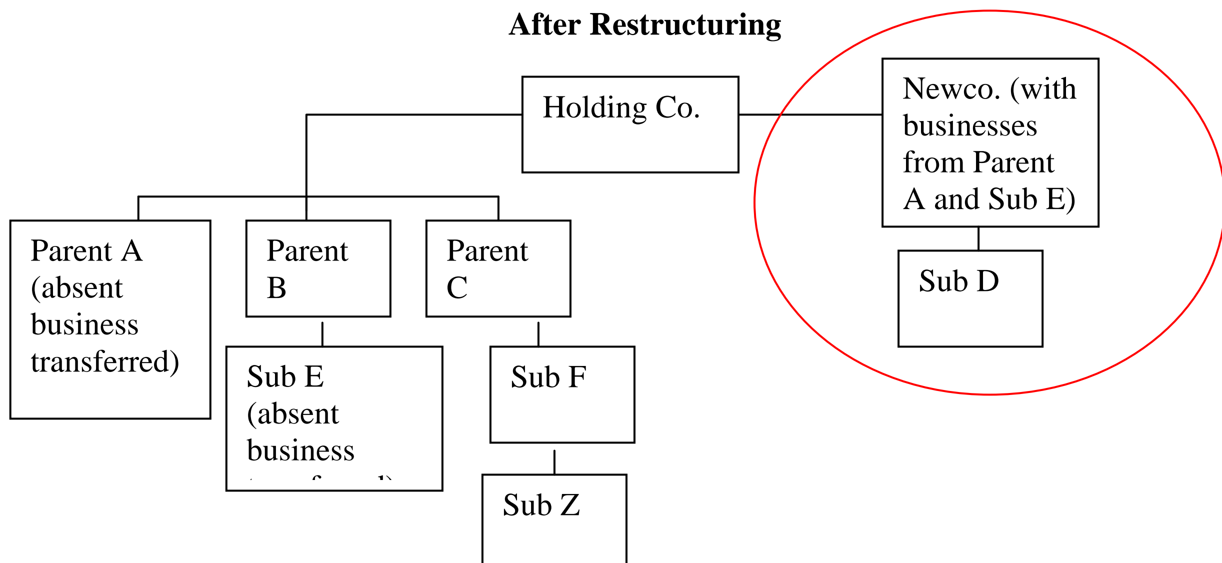
Can the combined financial statements be in accordance with IFRS.

Scenario 3:

The existing structure is shown below. Subsidiary D, some of the activities within Subsidiary E and some of the activities in Parent A are in the same line of business which is being sold off as a separate group, by being transferred as subsidiaries of a separate legal entity to be created – circled in red. Assume that the line of business in Subsidiary E and in Parent A constitute a 'business' as defined in IFRS 3.

1. Can a set of financial statements be prepared in accordance with IFRS for Subsidiary D (excluding Subsidiary Z), and the businesses within Subsidiary E and Parent A that are being disposed of, prior to the reorganisation occurring?
2. Can Holding Co., Parent A and Parent B prepare a set of financial statements in accordance with IFRS, excluding the operations that have been 'carved out' from the historical financial information (that is, creating a new reporting entity) and in the case of Parent B, excludes Subsidiary Z?





Appendix B [B to original submission]

Text of ASC505-60-S99-1

Facts: A Company disposes of a business through the distribution of a subsidiary's stock to the Company's shareholders on a pro rata basis in a transaction that is referred to as a spin-off.

Question: May the Company elect to characterize the spin-off transaction as resulting in a change in the reporting entity and restate its historical financial statements as if the Company never had an investment in the subsidiary, in the manner specified by paragraph 34 of APB Opinion 20 [paragraph 250-10-45-21]?

Interpretive Response: Not ordinarily. If the Company was required to file periodic reports under the Exchange Act within one year prior to the spin-off, the staff believes the Company should reflect the disposition in conformity with Statement 144 [Topic 205]. This presentation most fairly and completely depicts for investors the effects of the previous and current organization of the Company. However, in limited circumstances involving the initial registration of a company under the Exchange Act or Securities Act, the staff has not objected to financial statements that retroactively reflect the reorganization of the business as a change in the reporting entity if the spin-off transaction occurs prior to effectiveness of the registration statement. This presentation may be acceptable in an initial registration if the Company and the subsidiary are in dissimilar businesses, have been managed and financed historically as if they were autonomous, have no more than incidental common facilities and costs, will be operated and financed autonomously after the spin-off, and will not have material financial commitments, guarantees, or contingent liabilities to each other after the spin-off. This exception to the prohibition against retroactive omission of the subsidiary is intended for companies that have not distributed widely financial statements that include the spun-off subsidiary. Also, dissimilarity contemplates substantially greater differences in the nature of the businesses than those that would ordinarily distinguish reportable segments as defined by Statement 131 [Topic 280].

[Appendix B has been omitted from this observer note]