Project **IAS 27 Consolidated and Separate Financial Statements**

Topic **Combined Financial Statements and Redefining the Reporting Entity**

Introduction

1. In November 2009, the IFRIC published a tentative agenda decision not to add to its agenda requests for guidance on combined financial statements and redefining the reporting entity in accordance with IFRS.

2. The issues relate to:

   (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'.

3. As published in the November 2009 IFRIC Update:

> The IFRIC received a request for guidance on whether a reporting entity has the ability in accordance with IFRS to present financial statements that include a selection of entities that are under common control, rather than being restricted to a parent/subsidiary relationship defined by IAS 27.
>
> The IFRIC noted that the ability to include entities within a set of IFRS financial statements depends on the interpretation of 'reporting entity' in the context of common control transactions. The IFRIC noted that in December 2007 the Board added a project to its research agenda to examine the definition of common control and the methods of accounting for business combinations under common

> control-in the acquirer's consolidated and separate financial statements. The IFRIC also noted that describing the reporting entity is the objective of Phase D of the Board's Conceptual Framework project.
>
> The IFRIC also received a request for guidance on the ability in accordance with IFRS for a reporting entity to be redefined to exclude from comparative periods entities/ businesses that have been carved-out of a group. The IFRIC noted that the Board's common control project referred to above will also consider the accounting for demergers, such as the spin-off of a subsidiary or business.
>
> Therefore, the IFRIC [decided] not to add this issue to its agenda.

4. Three comment letters were received. The responses included in the three comment letters were varied including:

    (a) **Comment Letter A** (CL A) – '…agreed with the IFRIC's decision not to take these items onto its agenda for the reasons set out in the tentative agenda decision.'

    (b) **Comment Letter B** (CL B) – 'strongly encourage[s] the IFRIC to take the issue onto its agenda and provide the reporting entities with an adequate interpretation on the issues laid out above [including both issues in this paper plus another November 2009 IFRIC tentative agenda decision on the IAS 27 *Consolidated and Separate Financial Statements – Presentation of comparatives when applying the 'pooling of interest' method* included in agenda paper 4C], and

    (c) **Comment Letter C** (CL C) – 'believes that some clarity can be provided by IFRIC' on three distinct questions.

5. Additional analysis of CL B and CL C is included below.

CL B – Add all common control transaction issues onto the IFRIC agenda

6. CL B acknowledges that one of the main reasons proposed by the IFRIC for not adding these items to its agenda was 'that the Board in December 2007 added a project to its research agenda to examine the definition of common control and the methods of accounting for business combinations under common control in the acquirer's consolidated and separate financial statement.'

7. CL B references to the IFRIC Due Process Handbook, specifically paragraph 24(f) that refers to the expected time to complete guidance sooner than the Board. Paragraph 24(f) includes a presumption that must be met that 'there is a pressing need to provide guidance sooner than would be expected from the IASB's activities'. Further, the IASB's activities include 'a current or planned IASB project'.

8. The staff acknowledges that from the perspective of the submitter of an IFRIC request, the 'pressing need to provide guidance' will generally be met. However, from the perspective of the entire constituency of users of IFRS, the issue of common control transactions has been around for many years and practice has formed to address many of these issues. As CL B acknowledges, the Board does have the intent to address the definition of common control and a project has already been added to the Board's research agenda.

9. Additionally, the November 2009 IFRIC deliberation on these issues included references to multiple standards pointing to the fact that there was potential conflict within IFRSs. This notion is also included in the original submission and the multiple views that could be supported. The staff believes that given the nature of common control transactions and the broad impact across many different transactions, not just the two specific issues included in this Agenda Paper (and one additional issue included in Agenda Paper 4C), some may hold the view that the issue and complexity of common control transactions is too broad for the IFRIC to address. This rationale was not included within the IFRIC in the November 2009 Tentative Agenda Decision; however, the staff believes this rationale is appropriate in addition to the rationale included in the Tentative Agenda Decision.

10. Therefore, the staff does not recommend the IFRIC add to its agenda a broad scope to address all common control transactions.

CL C – Add three specific issues onto the IFRIC agenda

11. CL C acknowledged the IFRIC's Tentative Agenda Decision, but expressed disappointment. CL C believes:

…that some clarity can be provided by IFRIC as follows:

1. Specifying that the interrelationship between IAS 27 and the reporting entity can be interpreted in more than one way.
2. Answering the remaining question that was included in the original submission as to whether once the entities are selected to be included in the reporting entity, IAS 27 must then be applied to include all subsidiaries of those entities.
3. Specifying whether IFRS 5 must also still be applied.

12. In the staff's opinion, the three questions noted above were previously deliberated by the IFRIC, either directly or indirectly at the November 2009 meeting.

13. Question 1 (specifying the interrelationship between IAS 27 and the reporting entity) was an issue presented to the IFRIC for deliberation. See IFRIC November 2009 Agenda Paper 8B[1] 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'.

14. Question 2 (answering the remaining question included in the original submission on application of IAS 27 to all subsidiaries of those entities) was, as the question acknowledges, included in the original submission. The entire original submission without modification, except for removal of the submitter contact information, was included in Appendix A to the IFRIC November 2009 Agenda Paper 8B. Therefore, this question and surrounding submitter details were available to all IFRIC members prior to, and during, deliberation at the November 2009 meeting.

15. In the staff's opinion, Question 2 is a more specified question than is encompassed by Question 1 (for which there was a detailed 'Issue 1' included in the IFRIC November 2009 Agenda Paper 8B). Further, in the staff's opinion, Question 2 is also partially addressed by 'Issue 2' included in the IFRIC

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[1] The relevant Observer Note can be obtained at http://www.iasb.org/NR/rdonlyres/F9481355-CA4A-4BDE-9F61-6D946C082ECF/0/0911ap8BobsIAS27CombinedFSandRestatedReportingEntity.pdf

November 2009 Agenda Paper 8B including a discussion of whether a reporting entity can be redefined.

16. Question 3 (whether IFRS 5 must also still be applied) was an issue explicitly presented to the IFRIC for deliberation. See IFRIC November 2009 Agenda Paper 8B 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'. That analysis included specific references (in paragraph 21 of that agenda paper) to paragraph 40 of IFRS 5 which 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.

17. Therefore, in the staff's opinion, all three questions included in CL C were included in the IFRIC's November 2009 deliberations. The staff acknowledges that the deliberations on the IFRIC November 2009 Agenda Paper 8B did not include a detailed discussion of all potential technical accounting views as the IFRIC tentatively decided not to add these issues to its agenda on the basis of the Board's project to address the definition of common control. However, if the IFRIC agenda criteria are not met for one reason alone, the issue cannot be taken onto the IFRIC agenda; therefore, further deliberation by the IFRIC was not considered necessary.

Staff recommendation

18. Based on the three comment letters received, the **staff recommends that the Tentative Agenda Decision be finalised with no change from the Tentative Agenda Decision published in the November 2009 IFRIC Update**.

19. To the extent the IFRIC propose to make a significant change to the wording previously exposed in the Tentative Agenda Decision, the staff recommend the that a Tentative Agenda Decision be re-published. This would allow for an appropriate due process period to permit constituents to submit comment letters on the revised final non-authoritative wording.

Questions – Finalisation of IFRIC Agenda Decision
Question 1 – The staff recommends that the IFRIC finalise its Tentative Agenda Decision not to add these issues to its agenda. Does the IFRIC agree with the staff's recommendation? **Question 2** – Appendix A includes the staff's proposed wording for the final Agenda Decision. Does the IFRIC agree with the proposed final Agenda Decision wording?

Appendix A – IFRIC Submission

A1. The staff proposes the following wording for the **tentative** agenda decision. (Deleted text is struck through.)

> **IAS 27 *Consolidated and Separate Financial Statements* – Combined financial statements and redefining the reporting entity**
>
> The IFRIC received a request for guidance on whether a reporting entity has the ability in accordance with IFRS to present financial statements that include a selection of entities that are under common control, rather than being restricted to a parent/subsidiary relationship defined by IAS 27.
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> The IFRIC noted that the ability to include entities within a set of IFRS financial statements depends on the interpretation of 'reporting entity' in the context of common control transactions. The IFRIC noted that in December 2007 the Board added a project to its research agenda to examine the definition of common control and the methods of accounting for business combinations under common control-in the acquirer's consolidated and separate financial statements. The IFRIC also noted that describing the reporting entity is the objective of Phase D of the Board's Conceptual Framework project.
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> The IFRIC also received a request for guidance on the ability in accordance with IFRS for a reporting entity to be redefined to exclude from comparative periods entities/ businesses that have been carved-out of a group. The IFRIC noted that the Board's common control project referred to above will also consider the accounting for demergers, such as the spin-off of a subsidiary or business.
>
> Therefore, the IFRIC ~~[~~decided~~]~~ not to add this issue to its agenda.