

Separate Financial Statements

Cover note

Objective

- 1 The objective of the session is to discuss the role of separate financial statements and the challenges that arise in practice to those who use separate financial statements.

Background

- 2 It is widely accepted that financial statements presented by a parent company or an investor, whether prepared under IFRS or local GAAP, provide decision-useful information. For example, they provide information about an entity's capability to generate cash flows to repay debt or distribute dividends, and information about existing guarantees. They provide information on intra-group relationships and economic inter-dependencies. They also serve a critical role in determining compliance with legal requirements in numerous jurisdictions.
- 3 In the European Union and European Economic Area, under the Regulation 1606/2002, member states have the option to allow or require the preparation of annual accounts in conformity with IFRS (i.e. separate financial statements). For companies applying IFRS to the separate financial statements, it has been debated whether separate financial statements should have a different or modified objective from consolidated financial statements. There have also been practical concerns about the relevance of some of the requirements, or lack thereof, in relation to these statements. An example is a common control transaction between a parent company and its subsidiary that is not necessarily priced on an arm's length basis. Similarly, as disclosure requirements in IFRS are often focused on consolidated financial statements, there is a question whether these requirements may have to be amended for separate financial statements.
- 4 To address these concerns EFRAG, in partnership with the Italian Standard Setter, the Spanish Standard Setter and the Dutch Standard Setter, issued in September 2014 a Discussion Paper on Separate Financial Statements.

Agenda Papers

- 5 In addition to this cover note, agenda papers for this session are:
 - (a) Agenda paper 1A – Separate Financial Statements – The role of separate financial statements and the challenges that arise in practice
 - (b) Agenda paper 1B – Separate Financial Statements – Discussion Paper - for background only