Presentation of Combined Financial Statements

Excerpt, IFRS Discussion Group Report on Meeting – July 19, 2012

Combined financial statements, unlike consolidated financial statements, are presented for separate entities that do not exist as a “single economic entity” (i.e., there is no parent-subsidiary relationship amongst the entities). Combined financial statements are prepared by “combining” the financial statements of various entities or businesses that do not constitute a single group to provide the historical financial performance of such entities or businesses.

Reporting issuers may file combined financial statements for certain regulatory filings, with the representation that such combined financial statements provide information about the substance of a proposed internal re-organization (for example, the spinoff of various entities to a new entity which plans to go public). Such information may be considered relevant to investors who are investing in entities that are under common control or under common management.

In Canada, some entities prepared combined financial statements in the past, especially in regulatory filings such as prospectuses or information circulars. Pre-changeover Canadian accounting standards included some guidance on the presentation of combined financial statements in *Consolidated Financial Statements*, paragraphs 1600.04-.05, in Part V of the CICA Handbook – Accounting.

The issue considered by the Group was whether the presentation of combined financial statements is appropriate under existing IFRSs, and when such presentation would be considered appropriate.

The Group’s Discussion

Group members noted that IFRSs do not provide guidance on the presentation of combined financial statements. Group members observed that entities applying IFRSs do issue combined financial statements in a variety of circumstances and may do so, in part, because of the requirements of Canadian securities regulations. Cameron McInnis, Chief Accountant of the Ontario Securities Commission, noted that these requirements do not necessarily require combined financial statements to be presented. Reporting issuers are encouraged to consult with securities regulators early in the process to determine whether combined financial statements are appropriate and necessary for a particular fact pattern, especially when the entities being combined are under common management rather than common control.

Some Group members noted it would be helpful if Canadian securities regulators were to clarify when combined financial statements are considered necessary.

Group members discussed when combined financial statements may be considered appropriate, noting co-operatives and real estate property management as examples. Some Group members commented that combined financial statements may be appropriate in circumstances involving common control or common management but that the specific facts and circumstances need to be considered, especially in respect of entities or businesses under common management.

Some Group members cautioned that combined financial statements are not appropriate in circumstances when IFRSs provide guidance on how to account for an inter-corporate investment (for example, when a significant influence relationship exists) and combined financial statements would override the required accounting treatment. However, combined financial statements may be appropriate when no relationship exists for which IFRSs provide guidance and the presentation of combined financial statements would be useful and is permitted by securities regulators.

Some Group members expressed concern with the lack of guidance in IFRSs about how to prepare combined financial statements under IFRSs. Other Group members expressed the view that this lack of guidance should not preclude preparation of combined financial statements in circumstances when providing this information would be useful.

Group members observed that, in January 2010, the IFRS Interpretations Committee considered and rejected adding this issue to its agenda, noting "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." In addition, in July 2012, the Committee reconsidered this decision as part of a review of all issues that the Committee referred to the IASB from January 2008 to May 2012 (excluding annual improvements). The Committee supported the staff's recommendation that this issue should not be reconsidered because the issue "should be considered as part of the IASB's project on business combinations under common control and, as applicable, the IASB's work on the reporting entity chapter of the *Conceptual Framework*."

Group members observed that the Group's conversation is being replicated globally. As a result, although guidance would be helpful, it is unclear what the AcSB can do to change or accelerate current global activities regarding this issue. Although the AcSB staff will monitor the global activities, this work will likely take some time to complete. In the short term, reporting issuers are encouraged to continue to consult often and early with Canadian regulators and watch for future communications from Canadian regulators on this topic.

The Group agreed that this issue should not be brought to the attention of the IFRS Interpretations Committee because the issue is already being considered globally.