Private and Confidential
EFRAG
35 Square de Meeûs
B-1000 Brussels
Belgium

30 December 2014

Dear Sir/Madam

Discussion Paper - Separate Financial Statements (the Discussion Paper/the DP)

We are responding to your invitation to comment on the Discussion Paper on behalf of PricewaterhouseCoopers.

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of those member firms who commented on the Discussion Paper. PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

The DP is a significant contribution to financial reporting discussions on a topic that has historically received little specific attention from the International Accounting Standards Board (the IASB). In our view, the DP is a good starting point for further dialogue on financial reporting for separate financial statements under IFRS and the closely related issues of common control and other related party transactions.

The DP has identified a number of questions and issues that are relevant for users and preparers of separate financial statements. These issues highlight the broader issues around measurement, presentation and disclosure in separate financial statements that are largely unaddressed in IFRS today.

Some of the issues identified may be best left with national regulators and authorities. However, we suggest that the EFRAG work with the IASB on those issues relating to measurement, presentation and disclosure in particular.

The EFRAG should encourage the IASB to assess the interest in and perceived usefulness of a comprehensive project on related party transactions and separate financial statements as part of the planned agenda consultation in 2015. Any project might consider how to encourage expanded use of IFRS in separate financial statements. Appropriate simplification of disclosure requirements, for example, might make use of IFRS in separate financial statements more attractive for preparers.

Our responses to the specific questions posed in the invitation to comment are attached as Appendix 1 to this letter.

If you have any questions in relation to this letter please do not hesitate to contact Paul Fitzsimon, PwC Head of Financial Reporting and Chief Accountant (+1 416 869 2322), or Stefan Mundorf (+34 91 568 5202).

Yours faithfully

PricewaterhouseCoopers

PricewaterhouseCoopers LLP, 1 Embankment Place, London, WC2N 6RH
T: +44 (0) 20 7583 5000, F: +44 (0) 20 7212 4652, www.pwc.co.uk

PricewaterhouseCoopers LLP is a limited liability partnership registered in England with registered number OC303525. The registered office of PricewaterhouseCoopers LLP is 1 Embankment Place, London WC2N 6RH.PricewaterhouseCoopers LLP is authorised and regulated by the Financial Conduct Authority for designated investment business.

pwc

Appendix 1 - Detailed response to Discussion Paper Separate Financial Statements

Question 1 - Introduction

Q1.1 Do you believe that chapter 1 appropriately sets out the framework of separate financial statements in Europe? If not, what should be changed in chapter 1 and why? Please explain.

The framework set out in the DP seems to be based on an incorporated private sector company with limited liability and a profit objective. Real life is significantly more complex and any additional guidance should not exclude other types of entities from its scope. Individual entities that may be required to or may voluntarily present financial statements can be established by individuals, companies, governmental and non-governmental institutions for a variety of purposes. These entities may or may not be legal persons, they may shield their owners from claims or may have unlimited liability. The scope of the DP should encompass this wider population of potential users of IFRS for separate financial statements.

We believe that there is no practical difference between 'individual' and 'separate' financial statements. An entity that does not hold investments in subsidiaries, associates or joint ventures presents 'individual' financial statements. These financial statements are, in all relevant ways, the separate financial statements of the entity.

Questions 2.1, 2.2 and 2.3 - The use of financial statements of a parent or an investor, regardless of whether they are prepared under IFRS or Local GAAP

Q2.1 Do you agree with the description provided in chapter 2 of the use of financial statements of a parent or an investor, regardless of whether they are prepared under IFRS or Local GAAP? Please explain.

Q2.2 Considering the wide range of users of financial statements of a legal entity identified in the Discussion Paper, do you believe that paragraphs 2.13 to 2.17 accurately identify the primary users of separate financial statements? Please explain.

Q2.3 In your experience, are there any additional users of financial statements of a parent or an investor, regardless of whether they are prepared under IFRS or Local GAAP? If so, could you please identify the other users of such financial statements?

We believe that the users of separate financial statements and the users of consolidated financial statements significantly overlap. We do not see the need for a specific definition of the users of separate financial statements. Many who are interested in the financial situation of an entity will normally analyse the group as well as the individual entity.

Users of separate financial statements may be more focused on taxes and distributable profits than on the overall financial performance. Financial assets, for example, are analysed as investments with returns derived from dividend income rather than the sharing of profits.

The tax authorities often have a significant interest in the separate financial statements of an entity. However, the tax authorities have the ability to compel information from an entity and whilst they are interested in the financial statements they are not a primary user. Tax rules may have a significant impact on the pricing of transactions, especially those undertaken with related parties. Thus, the tax environment of the entity will have to be considered by users when analysing the financial statements and by management when structuring transactions.

pwc

Question 3.1 - Accounting policies to be applied in separate and consolidated financial statements

Q3.1 In which cases, if any, do you believe that the accounting policies applied to either set of financial statements should differ? Please explain.

We do not support different accounting frameworks for separate and consolidated financial statements. Consolidated financial statements are used to evaluate the performance of the business as a whole. The analysis of separate financial statements may focus on liquidity and performance of assets as investments but that does not indicate a need for a different accounting framework.

We agree that a 'fresh start' approach for separate financial statements is not needed. Similar to the users of consolidated financial statements, users of separate financial statements are looking to assess the financial performance of the entity.

Thus, the accounting policies applied in the separate financial statements of different subsidiaries may be different from each other and from those of the consolidated group.

Questions 3.2 and 3.3 - Accounting for transaction costs and contingent consideration

Q3.2 Do you consider that acquisition-related costs should be expensed or should be part of the initial measurement of investments in subsidiaries, joint ventures or associates accounted for at cost in the separate financial statements? Please explain.

Q3.3 Do you consider that contingent consideration should be accounted for in accordance with IFRS 3 or should be accounted for as part of the initial and subsequent measurement of investments in subsidiaries, joint ventures or associates accounted for at cost in the separate financial statements? Please explain.

The accounting for investments in subsidiaries, joint ventures and associates is addressed in IAS 27, which does not provide any guidance on acquisition-related costs or the treatment of contingent consideration. Questions that arise are analysed by analogy to other standards. Our published guidance currently requires that transaction costs and contingent consideration are included in the cost of an investment at initial recognition. We accept a policy choice for the subsequent remeasurement of contingent consideration that permits capitalisation as part of the cost of the investment or expensing by analogy to IFRS 3.

There is an IFRS IC project, currently awaiting the outcome of the leasing project, on the treatment of variable cost of purchase of an asset. We suggest that when that project is restarted it should explicitly include the treatment of contingent consideration in separate financial statements when the cost method is chosen.

Questions 3.4, 3.5, 3.6 and 3.7 - Sale or contribution of equity investments between entities under common control

Q3.4 Do you agree that the IASB needs to set out specific accounting requirements for the acquisition of investments from entities under common control in the separate financial statements? Please explain.

Common control transactions are a subset of related party transactions. We agree with the DP that related party transactions can take a variety of forms. Many of them include transactions in the normal course of business, such as purchases or sales of goods at market values. Others might include

significant one-off transactions or a number of different types including the transfer of investments between entities under common control. IFRS today takes a 'disclosure only' approach to related party transactions within
IAS 24.

Disclosure of related party transactions is helpful but the historical information on these transactions inevitably becomes obscured over time. For example, if a company acquires from its sole shareholder an asset which has at that moment a fair value of C1.000 for a consideration of C1 and sells it five years later for C1.100 it will show a profit of C1.099. This might lead a user of the financial statements to erroneous conclusions. The current disclosure approach implies the need for users to prepare a parallel analysis of the financial statements, to assess the 'real' performance of the company.

We believe that many of the questions raised in the DP apply not only to transactions with companies under common control, but more generally to transactions with related parties. The issues raised do not only affect separate financial statements. Therefore, the answers to the questions raised in the DP should not be limited to the sale or contribution of equity investments between entities under common control in the separate financial statements.

Similar issues may also arise in the financial statements of a consolidated sub-group and the consolidated financial statements of a group where the ultimate owner controls other entities but is not subject to the obligation to present consolidated financial statements. Examples may be individual persons or governmental entities.

It may be time to reconsider the current disclosure only approach in IAS 24. We suggest that the EFRAG should continue its work with the IASB to consider a broader project on how transactions with related parties are accounted for in a way that results in decision useful information. The IASB could assess the interest in a wider project on accounting for related party and common control transactions when it next performs its agenda consultation in 2015. We do not support a piecemeal approach to dealing with these issues.

Q3.5 In your view, which of the approaches presented in paragraph 3.66 of the Discussion Paper provides more relevant information to users? Please explain.

The separate financial statements provide relevant information to stakeholders and users as they reflect the legal situation of a company. However, we do not believe there has been sufficient consideration of the issues for us to express a preference for one approach to accounting for these transactions.

Q3.6 If an entity applies the 'fair value' approach or 'carrying amount' approach (as described in paragraph 3.66 of the Discussion Paper), how should it account for any difference between the transaction price' and the amount of investment initially recognised at 'fair value' or 'carrying amount"? Please explain.
See our response to question 3.5.

Q3.7 Do you think that the use of the fair value method (i.e. the application of IAS 39/IFRS 9) is the most appropriate option to account for investments acquired by entities under common control? Please explain.

See our response to question 3.5.

Question 3.8 - Business combinations and separate financial statements

Q3.8 In your view, what is the most appropriate approach to account for a business combination between entities under common control in the separate financial statements? Please explain.

When an individual entity has acquired a business in its separate financial statements (for example because it acquires a group of assets and liabilities that constitute a business) it should follow the relevant requirements of IFRS 3. This situation does not frequently occur. If it has acquired that business from a party under common control, the transaction falls within the scope exemption of IFRS 3 and the entity needs to choose an appropriate accounting policy as with any other business combination between parties under common control.

The acquisition of a subsidiary in the separate financial statements is not a business combination but the acquisition of an investment, thus the requirements and scope exemption of IFRS 3 are not relevant.

Questions 3.9 and 3.10 - Legal Mergers

Q3.9 Do you agree that both the approaches described in paragraph 3.109 (use of the carrying amounts in the consolidated financial statements) and paragraph 3.111.a) (use of the carrying amounts in the separate financial statements of the acquiree) can provide decision useful information to users of separate financial statements? Please explain.

Both approaches may have merits and should be considered further as part of a comprehensive project undertaken at the IASB after appropriate consultation. Legal mergers are just one type of business combinations, common principles should be applied to all such transactions.

Q3.10 In your view, which of the approaches described in paragraphs 3.110 – 3.113 provides, when applied in practice, more relevant information to users? Please explain.

See our response to 3.9 above.

Questions 3.11 and 3.12 - Disclosures on distributions to equity holders in the separate financial statements

Q3.11 Do you think that additional disclosures about distributable dividends are necessary in the separate financial statements? Please explain.

We believe that this issue is best left to individual regulators and the requirements of relevant company law rather than being prescribed by the IASB.

Q3.12 Do you think that all the cumulative amounts of gains or losses recognised in Other Comprehensive Income ('OCI') that will be reclassified (recycled) to profit or loss should be always presented in the statement of financial position as a separate component of equity? Please explain.

Please see our response 3.11

pwc

Question 3.13 - Clarification of the current terminology under IFRS

Q3.13 Do you agree with our tentative view as described above? Please explain.

We agree that it would be useful for the IASB to re-consider the definitions of the types of financial statements in IAS 27. We believe that there are three types of financial statements: (1) those of a single entity, (2) those of a consolidated group, and (3) those of an investment entity which may include some subsidiaries at fair value and some providing investment services that are consolidated.

Questions 3.14 and 3.15 - Other issues

Q3.14 Do you think there are any other significant issues regarding separate financial statements under IFRS which have not been addressed in this paper? Please explain.

The IASB should assess the interest and usefulness of a comprehensive project on related party transactions and separate financial statements as part of the planned agenda consultation in 2015. Any project might consider how to encourage the expanded use of IFRS in separate financial statements. Appropriate simplification of the disclosure requirements, for example, might make use of IFRS in separate financial statements more attractive for preparers.

Q3.15 Do you have any other comments related to separate financial statements?

There are many questions that arise frequently in practice. We have provided a handful of examples below and welcome the opportunity to discuss these further to the extent that it would support the work of the EFRAG in this area.

- When should a parent recognise a gain on a transfer of an asset to a subsidiary?
- How should derecognition criteria of IAS39/IFRS9 be applied when a parent contributes a financial asset to a subsidiary (and therefore indirectly retains all risk and reward)?
- Should associates held at cost be remeasured to fair value when they become a subsidiary? (i.e. is the subsidiary a new unit of account, or just an accumulation of shares?) The same question applies to a subsidiary becoming an associate.
- Are business disposals from a parent to a subsidiary within the scope of IFRS5?
- When is a dividend from a subsidiary a *return of capital* rather than a *return on capital*?
- What principles should apply to equity-method accounting in separate financial statements? For example, if an equity-method accounted subsidiary is transferred between entities under common control, should the acquirer follow the guidance for business combination or an asset transfer?