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Date: Amsterdam, December 22nd 2014
Re: Comment on Separate Financial Statements Discussion Paper

Dear members of the EFRAG Technical Expert Group,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to respond to your discussion paper on Separate Financial Statements. We largely agree with its content and agree that IFRS could be improved on all of the topics mentioned in the discussion paper.

However, we are concerned whether the discussion paper will be able to convey the sense of urgency of the issue of separate financial statements to the IASB. We believe that the role of the separate financial statements and what they should look like should be part of the agenda of the IASB and that the discussion paper should emphasise this more clearly. Furthermore, it might be useful to provide a stronger focus on the main topics instead of mentioning a number of topics which partly overlap. Moreover, it would be important to emphasize that separate financial statements are not only important from an European (legal) perspective, but likewise for all (worldwide) jurisdictions where – next to consolidated financial statements – separate financial statements are prepared by reporting entities (considering) applying IFRS. The latter may be an incentive, too, for even wider acceptance and/or use of IFRS. In addition, we would suggest that the discussion paper includes a discussion on whether or not there should be a distinction between separate and individual financial statements.
Our answers to the specific questions in your discussion paper are described below.

Yours sincerely,

Hans de Munnik
Chairman Dutch Accounting Standards Board

Appendix: DASB response to questions in discussion paper

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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.

A1.1 Yes, we believe that chapter 1 appropriately sets out the framework of separate financial statements in Europe. We would suggest, however, that the purpose of separate financial statements is described in the discussion paper and that the paper discusses whether or not it is useful that there is a difference between separate and individual financial statements. We believe that individual financial statements are not useful when no consolidated financial statements are prepared, in those cases separate financial statements are useful. Any information to be recognized and included in the individual financial statements different from the separate financial statements based on current IFRS might be included in the notes to the separate financial statements.

We would like to propose that the terminology used in IFRS is aligned with the terminology used in the EU Directives. Furthermore, we believe that the discussion paper could approach the issue of separate financial statements from both a legal and an economic perspective, and that these approaches might result in a different outcome.

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.

A2.1 Yes, we agree with the description provided in chapter 2 of the discussion paper.

However, we are concerned that this paper might not include all relevant arguments that could be brought to the attention of the IASB. For instance, from an EU company law perspective (Directive 2013/34/EU) legal entities, also those mandatorily or voluntarily applying IFRS, must prepare separate financial statements in order to comply with the (national) legal requirements.

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.

A2.2 We believe that all stakeholders of the entity should be recognized as the primary users of the separate financial statements. As stakeholders we identify all parties that intend to conclude or have concluded a contract with the entity. Therefore, we believe that paragraphs 2.13 to 2.17 only partly identify the primary users of the separate financial statements and including for example the employees and the works council might be necessary.

It should be noted that investment analysts within the DASB state that they are often mainly (or only) interested in consolidated financial statements of listed entities. Relevant information such as the amount of distributable reserves can (and should) be disclosed in a note to the consolidated financial statements, without the need to include the entire separate financial statements in the annual accounts. Even when analysing parts of a group, it is not the separate financial statements of those parts are that useful for investors, it would be the consolidated financial statements of the individual branches of a group that are useful for investors. However, investors also benefit from the broadest possible adoption of IFRS, and making IFRS more suitable for the preparation of separate financial statements is likely to be beneficial for broader adoption of IFRS in general.

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?

A2.3 We refer to our answer on Q2.2.

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.

A3.1 In general, we would advise that the accounting policies for the separate financial statements are aligned as much as possible with the accounting policies for the consolidated financial statements. However, the separate financial statements may be prepared from a different (company law, statutory) perspective than the consolidated financial statements; see our answer on Q2.2. An example of a situation in which accounting policies could differ between these both sets of financial statements may be the equity/liability classification of specific financial instruments.

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.

A3.2 We believe that acquisition-related costs should be treated similarly in both the separate and the consolidated financial statements. Transaction costs for subsidiaries are expensed when incurred as IFRS 3 requires, whereas transaction costs for joint ventures and associates are treated as part of the investment. This difference will lead to a mixed accounting policy for initial measurement of all investments in the separate financial statements, which may be an undesired mismatch.

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.

A3.3 We consider that contingent consideration should be accounted for in accordance with IFRS 3. In general, we believe that the accounting policies for the separate financial statements are aligned as much as possible with the accounting policies for the consolidated financial statements.

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.

A3.4 Yes, we 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. However, we believe that this should be part of a broader project to address all accounting issues related to the acquisition of investments from entities under common control.

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.

A3.5 We refer to our answer on Q3.4.

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.

A3.6 We refer to our answer on Q3.4.

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.

A3.7 We refer to our answer on Q3.4.

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.

A3.8 We refer to our answer on Q3.4.

Questions 3.9 and 3.10 - Legal Mergers

Q3.9 Do you agree that both the approaches described above can provide decision useful information to users of separate financial statements? Please explain.

A3.9 No, we do not believe that accounting for legal mergers as described in the discussion paper is a distinct topic from the accounting for (other) business combinations under common control as described earlier in the discussion paper. We do not really see the reason why this topic has been mentioned separately in this discussion paper, in the sense that legal mergers should be accounted for in the same way as other (non-legal) mergers or similar 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.

A3.10 We refer to our answer to Q 3.9.

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.

A3.11 Yes, we believe that such disclosures are indeed necessary.

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.

A3.12 We believe that it is relevant for the users of separate financial statements that the entity provides information about both the equity amounts that are distributable or not and the cumulative amounts of gains or losses recognised in OCI that will be reclassified to profit or loss.

Question 3.13 - Clarification of the current terminology under IFRS

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

A3.13 Yes, we agree that IFRS would be much improved when the objective of separate financial statements was to be clarified and, moreover, the different types of financial statements mentioned in IFRS (e.g. separate and individual financial statements), would be defined or otherwise clarified. We would like to suggest that the terminology used is similar as the terminology used in the EU Directive. We believe that adding the term separate financial statements will lead to confusion, and would therefore like to suggest that the term individual financial statements is abandoned. Please also see our answer on Q1.1.

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.

A3.14 We would suggest to clarify some topics related to the recognition of the received distribution of equity from investments in the separate financial statements: does it make any difference which part of equity has been distributed; for instance should repayment of share capital be treated differently compared to the dividend received from the distribution out of retained earnings?

Under current IFRS it is unclear whether the repayments of capital are included in the income statement, or not.

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

A3.15 We do not have any other comments.