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Mr Filipe Camilo Alves
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Dear Mr Alves

DISCUSSION PAPER – SEPARATE FINANCIAL STATEMENTS

Moore Stephens LLP is pleased to respond to EFRAG on the discussion paper Separate Financial Statements issued August 2014.

We support the intention to provide clarity on the purpose of separate financial statements and the consideration of the accounting to achieve that purpose.

Attached to this letter you will find Appendix 1 with our comments to the specific questions raised in the exposure draft.

If you wish to discuss any matters raised in this letter then please contact David Chopping, Partner (+44 (0) 207 651 1050) or Jamie Tomlin, Senior Technical Manager (+ 44 (0) 207 651 1619).

Yours faithfully

Moore Stephens LLP

Moore Stephens LLP

Appendix 1

Response to the Discussion Paper – Separate Financial Statements

Question 1.1 Introduction – 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

We agree that chapter 1 appropriately sets out the framework for separate financial statements and, perhaps more importantly, raises the conceptual issues that are fundamental to the Discussion Paper.

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

Q.2.1 Do you agree with the description 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.

We agree that because of the different treatments applied in separate financial statements when compared with consolidated financial statements, that the Discussion Paper is right to specifically consider this matter. We would agree with the description of the use where the separate financial statements are prepared using IFRS. Where Local GAAP is used to prepare financial statements, the use will be directly affected by the nature and extent of that GAAP and as such we would not make such a broad generalisation regarding use with respect to Local GAAP.

Q.2.2 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.

Despite the inherent problems with identifying primary users of financial statements, as these could vary according to the nature of the user, we believe that paragraphs 2.13 to 2.17 are a reasonable summary of identified users and their information needs. The drafting of these paragraphs does however fail to draw a clear distinction between whether they are referring to separate financial statements or consolidated (or individual) financial statements. In our opinion, this distinction is important so as to emphasise the different information provided in separate financial statements compared with, say, consolidated accounts. Such distinctions may be more relevant to the specific users discussed in paragraphs 2.14 and 2.15.

Q.2.3 In your experience, are there any additional users of financial statements of a parent or 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 agree that the principal users of financial statements of a parent or investor are those as shown. We would also identify competitors and potential competitors to a market as users, albeit that they would view the information available from a significantly different perspective, together with employees.

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

Q.3.1: Accounting policies to be applied in separate and consolidated financial statements. In which cases, if any, do you believe that the accounting policies applied to either set of financial statements should differ? Please explain.

We would support the view that separate financial statements have a different potential informational use when compared with consolidated financial statements and accordingly the accounting policies could differ between the two. If it is generally accepted that separate financial statements can provide useful information, and that information is provided from a different perspective when compared to consolidated financial statements, then we believe that it would be helpful for accounting standards to provide guidance in respect of this. This would include when the use of different accounting policies may be acceptable.

Questions 3.2 and 3,3 – Accounting for transaction costs and contingent consideration

Q.3.2: 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 associated accounted for at cost in the separate financial, statements? Please explain.

We believe that there is insufficient difference between investments in subsidiaries, joint ventures or associates and other fixed assets accounted for at cost in separate financial statements to support or justify a different treatment for transaction costs. Therefore, we would support the inclusion of transaction costs as part of the initial measurement when recognised at cost. Care is needed in determining which costs should or should not be permitted to avoid unnecessary complication in assessing whether an amount is or is not an acquisition-related cost, or directly attributable, cost. We would not support the view that all such costs should be expensed on the basis that the related service is immediately consumed. Where the cost is unavoidable, for example a legal requirement, it would seem unduly harsh to separate this from the acquired asset and to argue that having made the purchase the "service" has been received and consumed.

Q.3.3 : 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 treatment of contingent consideration under IFRS 3 should only be applied to a business combination that is accounted for under that standard. Where separate financial statements do not require the acquisition of interests in a subsidiary to be accounted for in accordance with IFRS 3, we believe that changes in the amount of contingent consideration should be reflected in the measurement of the asset acquired. If this leads to a different treatment compared with consolidated financial statements this will be due to the differing objectives of the information presented.

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

Q.3.4: 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.

Yes. Acquisition of investments from entities under common control are not uncommon and in the absence of guidance within IFRS will always lead to the possibility of inconsistent treatment, and so reducing the comparability of financial statements.

Q.3.5: In your view, which of the approaches presented in paragraph 3.66 of the Discussion Paper provides more relevant information to users? Please explain.

We would favour the fair value approach (approach 2). We would discount the transaction cost approach on the basis that under a common control transaction the parties to the transaction will not necessarily be acting in their independent interests and so this could result in the recognition of gains/losses/assets/liabilities that are not reflective of the economics or business rationale of the transaction. We would also discount the carrying amount approach (approach 3) on the basis that whilst this would be appropriate within consolidated accounts, and certainly ease the production of separate accounts, in recognising that separate financial statements are different to consolidated financial statements we believe that the most useful information would be that provided under approach 2. We acknowledge that approach 2 would be the hardest in practice due to the need to obtain fair values, which could create significant issues with unique assets if fair values are not otherwise required to be determined.

Q.3.6: 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.

We can recognise that following a common control transaction, where those transactions are at fair value this creates issues where either the difference is recognised in profit or loss or directly in equity. However, the question arises as to whether the form of asset received, for example, should determine the treatment. If the transaction involved cash then should this necessarily differ from a transaction that involves, for example, a tier 1 financial asset? We also have an issue as regards whether a party to a common control transaction would also fall to be an equity participant in all cases. A possible solution could be to treat any differences as part of OCI.

Q.3.7: Do you think that the use of the fair value method (ie the application of IAS39/IFRS 9) is the most appropriate option to account for investments acquired by entities under common control? Please explain.

Yes. If the intention is for separate financial statements to provide information about the economic resources to repay debt and dividends, for example, then the use of fair value must be considered to be more reflective of the economic resources than either transaction price or carrying amount.

Question 3.8 – Business combinations and separate financial statements

Q.3.8. 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.

We would support an approach that is based upon the facts and circumstances of each transaction. For example, where a BCUCC arises within a group, then the use of predecessor amounts would have merit, (as set out in paragraph 3.98). Where the business combination arises under common control but which is not a transaction within a group then the use of predecessor accounting is weaker, and the use of fair values should be used.

Question 3.9 and 3.10 – Legal Mergers

Q.3.9. 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.

We agree that both approaches can provide decision useful information.

Q.3.10. In your view, which of the approaches described above provides, when applied in practice, more relevant information to users? Please explain.

The use of the carrying amounts in the consolidated financial statements would have the merit of using information that is already available and assist with the preparation of consolidated financial statements. However, if we accept that separate financial statements are not intended to present the same information but in a different format (ie not on a line by line basis) then the use of the amounts recognised in the acquiree would be preferable, being both simpler and aiding entity historical trend analysis, as noted in paragraph 3.120

Questions 3.11 and 3.12 – Disclosures about Distributions to Equity Holders

Q.3.11.Do you think that additional disclosures about distributable dividends are necessary in separate financial statements? Please explain.

We would support additional disclosure requirements in separate financial statements. Although we recognise that excessive disclosures can create a burden for the preparation of accounts we believe that as a number of jurisdictions already require disclosures similar to those set out in paragraph 3.130 the inclusion of such requirements with IFRS may not be unduly burdensome and would assist users by providing comparability between jurisdictions.

Q.3.12. Do you think that all the cumulative amounts of gains and losses recognised in Other Comprehensive Income ("OCI") that will be reclassified (recycled) to profit or loss should always be presented in the statement of financial position as a separate component of equity? Please explain.

We are not supportive of the need to separately classify as a separate component of equity amounts that may be reclassified as to profit or loss. If this helps to track distributable profits then this has merit, but as the question of what is or is not distributable will be affected by local laws we do not believe that separation in equity is necessary.

Question 3.13 – Clarification of the current terminology under IFRS

Q.3.13. Do you agree with our tentative view as described in paragraph 3.139 above? Please explain.

If separate financial statements are to have a distinct purpose when compared with, say, consolidated financial statements, then it is important that such financial statements are clearly defined together with a clear objective of the purpose of those financial statements. Whilst this will not in itself resolve the issues regarding how to apply IFRS to such financial statements it will provide a more robust basis than is currently provided.

Questions 3.14 and 3.15 – Other Issues

Q.3.14. 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.

We would welcome guidance on the accounting at fair value for loans to and from related and common control parties in separate financial statements.

Q.3.15. Do you have any other comments related to separate financial statements?

We have no other comments to relate at this time.