

ROUNDTABLE

CONSISTENT APPLICATION OF IFRS

BRUSSELS, 26 JANUARY 2007

SUPPLEMENTARY ISSUES PAPER

NOTICE TO THE PUBLIC

This paper has been compiled using written contributions from individual participants to serve as a basis for the discussions at the meeting of 26 January 2007. Any opinions or recommendations expressed in these paragraphs are those of the proposer(s) concerned and not the views of the Roundtable or of the Commission.

No interpretations of IFRS should be inferred from the contents of this paper.

ROUNDTABLE

CONSISTENT APPLICATION OF IFRS

BRUSSELS, 26 JANUARY 2007

SUPPLEMENTARY ISSUES PAPER

A. Brief overview of Issues Proposed

***ISSUE 4 - IAS 24 Related Party Disclosures: Ultimate controlling party
Proposed by: Institute of Certified Public Accountants of Cyprus***

Paragraphs 12-15 of IAS 24 refer to relationships between parents and subsidiaries. An entity shall disclose the **name** of the entity's parent and, if different, the ultimate controlling party. In the absence of a parent / subsidiary relationship, it is not clear whether an entity should disclose the **name** of its sole shareholder or controlling shareholder. For example:

- (a) Company A is owned by Mr X who is the controlling shareholder. The question is: Should company A disclose the **name** of Mr X?
- (b) Company B is owned by Mr Y but his shares are officially registered in the name of a nominee shareholder. The question is: Should company B disclose the name of Mr Y?
- (c) Company C is owned by a Trust whose beneficiary is Mr Z. Should company C disclose the name of Mr Z?

The problem is that there are differing views as to whether the **name** of an entity's controlling shareholder should be disclosed.

ISSUE 5 – IFRS 3 Business Combinations: Allocating the cost of a business combination

Proposed by: Institute of Certified Public Accountants of Cyprus

For the purpose of allocating the cost of a business combination the following question has arisen:

Company A (a construction company) has acquired Company B (engaged in land development). Company B includes in its balance sheet land classified as inventory. In the consolidated accounts of Company A this land will also be classified as inventory.

The question is how should the fair value of this land be measured for the purposes of IFRS 3.36? Should it be the fair value as inventory as per Appendix B16(d) or the fair value as land as per Appendix B16(e)?

The problem is that IFRS 3 is not clear whether one should concentrate on the nature of the acquired asset or its intended use/ classification by the acquirer.

***ISSUE 6 – IAS 27 Consolidated and Separate Financial Statements: Exemption from the requirement to prepare consolidated financial statements
Proposed by: Institute of Certified Public Accountants of Cyprus***

IAS 27.10 sets out the criteria for exempting a parent from the requirement of presenting consolidated financial statements. Item (d) of the criteria is that the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with IFRSs.

An issue commonly faced in practice is when the ultimate parent company prepares financial statements according to a different framework than IFRS such as US GAAP. In such a case item (d) of the criteria of IAS 27p10 is not satisfied and, accordingly, consolidated financial statements need to be prepared.

B. Detailed description of issues proposed

ISSUE 4

IAS 24 Related Party Disclosures: Ultimate controlling party

Proposed by: Institute of Certified Public Accountants of Cyprus

IAS 24p12-15: Ultimate controlling party

Paragraphs 12-15 of IAS 24 refer to relationships between parents and subsidiaries. An entity shall disclose the **name** of the entity's parent and, if different, the ultimate controlling party.

In the absence of a parent / subsidiary relationship, it is not clear whether an entity should disclose the **name** of its sole shareholder or controlling shareholder.

For example:

- (a) Company A is owned by Mr X who is the controlling shareholder. The question is: Should company A disclose the **name** of Mr X?
- (b) Company B is owned by Mr Y but his shares are officially registered in the name of a nominee shareholder. The question is: Should company B disclose the name of Mr Y?
- (c) Company C is owned by a Trust whose beneficiary is Mr Z. Should company C disclose the name of Mr Z?

The problem

There are differing views as to whether the **name** of an entity's controlling shareholder should be disclosed.

Recommendation

For the benefit of consistent application of the disclosure requirements concerning the **name** of the ultimate controlling party we recommend that IAS 24 be appropriately amended.

ISSUE 5***IFRS 3 Business Combinations: Allocating the cost of a business combination*****Proposed by: Institute of Certified Public Accountants of Cyprus****IFRS 3p36: Allocating the cost of a business combination**

For the purpose of allocating the cost of a business combination the following question has arisen:

Company A (a construction company) has acquired Company B (engaged in land development). Company B includes in its balance sheet land classified as inventory. In the consolidated accounts of Company A this land will also be classified as inventory.

The question is how should the fair value of this land be measured for the purposes of IFRS 3p36? Should it be the fair value as inventory as per Appendix B16(d) or the fair value as land as per Appendix B16(e)?

The problem

IFRS 3 is not clear whether one should concentrate on the nature of the acquired asset or its intended use/ classification by the acquirer.

Recommendation

For the benefit of consistent application we recommend that IFRS 3 be clarified as to whether one should concentrate on the nature of the acquired asset or its intended use / classification by the acquirer.

ISSUE 6

IAS 27 Consolidated and Separate Financial Statements: Exemption from the requirement to prepare consolidated financial statements

Proposed by: Institute of Certified Public Accountants of Cyprus

IAS27p10: Exemption from the requirement to prepare consolidated financial statements

IAS 27p10 sets out the criteria for exempting a parent from the requirement of presenting consolidated financial statements. Item (d) of the criteria is that the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with IFRSs.

The problem

An issue commonly faced in practice is when the ultimate parent company prepares financial statements according to a different framework than IFRS such as US GAAP. In such a case item (d) of the criteria of IAS 27p10 is not satisfied and, accordingly, consolidated financial statements need to be prepared.

Recommendation

We believe that item (d) of the criteria of IAS 27p10 should allow some flexibility in the case of accounting frameworks such as US GAAP. For this reason we recommend that item (d) of the criteria be amended accordingly, particularly if the financial statements under US GAAP contain a reconciliation with IFRS.