



International Accounting Standards Board  
30 Cannon Street  
London  
EC4M 6XH

16 July 2010

Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116  
USA

Dear IASB and FASB members

**Invitation to comment - Conceptual Framework for Financial Reporting:  
The Reporting Entity**

The global organisation of Ernst & Young is pleased to respond to *Conceptual Framework for Financial Reporting: The Reporting Entity*. We support the addition of a project on the reporting entity to the Boards' agenda. However, we have concerns with the description of the 'reporting entity', and the ability to apply the description in practice, as described in **Appendix A**.

The Reporting Entity project is important, because it helps to address current practical issues. Generally, the identification of the 'reporting entity' is difficult when a reporting entity is not itself a legal entity. Such circumstances often arise in proposed transactions where a portion of legal entity will become a legal entity or join another legal entity (e.g. a spin off transaction). In that regard, the description of 'reporting entity' and references to 'combined financial statements' and 'portion' in the ED are helpful, because they clarify that a 'reporting entity' is not constrained by a legal entity.

However, we are concerned with the description of 'reporting entity' in the ED, because users that cannot directly obtain the information may not be able to define the boundaries of the entity in which they are interested. In this case, someone must do it for them, thereby creating unwarranted flexibility. This ED seems to allow for the identification of multiple reporting entities within a group structure, depending on the various permutations, combinations, and purposes for which the financial statements are prepared. Therefore, we believe that this Chapter of the Framework should explicitly state that the 'primary' reporting entity is the parent and all entities that the parent controls, when financial statements for that parent are required.

However, this explicit statement should not preclude providing other types of financial statements (such as parent-only or combined financial statements) in other circumstances (See Q1). This concept seems implicit behind the Boards' proposals with respect to presenting parent-only financial statements, but should be explicit. Without making such changes, we believe that there is a significant inconsistency within the ED as to which concept takes precedence - the determination of the reporting entity or the requirement to present consolidated financial statements that include all entities controlled by a parent (See Q2).

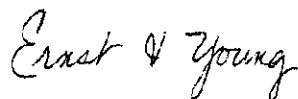
In addition, the ED does not adequately describe the boundary between the shareholders of the reporting entity and that reporting entity itself (See Q1). This boundary is important as the basis for developing standards, particularly when classifying an instrument as debt or equity. For example, the Boards' view on whether the actions taken by shareholders of a reporting entity at its annual general meeting, and whether such actions are deemed to be the reporting entity's own actions, or external to the reporting entity, have a bearing on the classification of a contractual obligation to deliver cash when such payment is at the ultimate discretion the shareholders. When this topic has been raised before, we had understood that it was the Boards' intention to address this issue in this project.

Furthermore, we are greatly concerned about the lack of detailed guidance under IFRS at the standards level as to how to apply the reporting entity concept, particularly as to the meaning of 'economic activities', 'objectively distinguished', 'commingling' and what principles are applied in the preparation of 'combined financial statements'. Such IFRS guidance should be available and effective when this Chapter of the Framework becomes effective. Otherwise, diversity that already exists in practice will continue, and may increase. If that is not practicable, then the IASB should add a project to its agenda to develop standards-level guidance as quickly as possible, to prevent further and continuing divergence in practice (both within IFRS and between US GAAP and IFRS). (See Q3 and Q4).

We also have other concerns, as noted in **Appendix B**.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas on +44 (0)20 7951 3152 or Carlo Pippolo on +1 212 773 1790.

Yours faithfully



**Appendix A - Responses to the questions in Exposure Draft of *The Conceptual Framework for Financial Reporting: The Reporting Entity***

Respondents are also invited to comment on the following questions.

1. Do you agree that a reporting entity is a circumscribed area of economic activities whose financial information has the potential to be useful to existing and potential equity investors, lenders and other creditors who cannot directly obtain the information they need in making decisions about providing resources to the entity and in assessing whether the management and the governing board of that entity have made efficient and effective use of the resources provided? (See paragraphs RE2 and BC4-BC7.) If not, why?

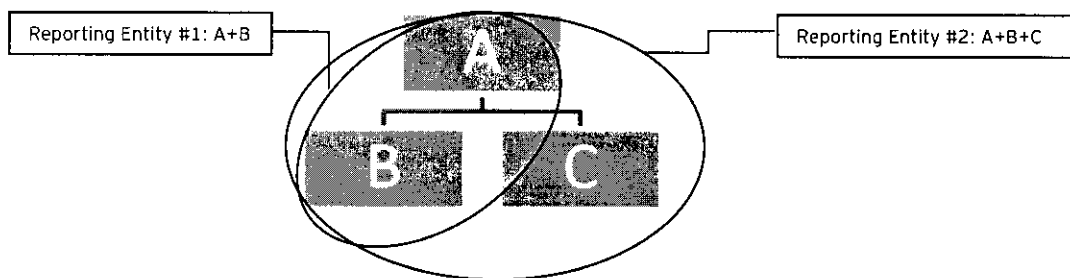
We agree with giving a broad description of 'reporting entity', and with the features described in RE3. However, we believe that the description of the 'reporting entity' in the ED and the underlying concepts are not clear, for the reasons described below.

**Need for 'primary' reporting entity**

Users that cannot directly obtain the information that they need may not be able to define the boundaries of the entity in which they are interested. The broad description of reporting entity gives management and the governing board latitude to determine the reporting entity. Therefore, we believe it is imperative for the Framework to specify explicitly that the 'primary' reporting entity is the parent and all entities that the parent controls, when financial statements for that parent are required (consolidated financial statements). However, this explicit statement should not preclude providing other types of financial statements (such as parent-only or combined financial statements) in other circumstances. This concept seems implicit behind the Boards' statements on consolidated financial statements in RE8, but is not explicit. Without making this change, we believe that there is a significant uncertainty within the ED as to which concept takes precedence - the determination of the reporting entity or the requirement to present consolidated financial statements.

For example, consider a situation in which parent A's shares are listed on a securities exchange, and the securities regulator requires financial statements for parent A, without explicitly circumscribing the reporting entity of parent A for which financial statements are required. Without making it explicit in the Framework that the primary reporting entity includes the parent and all of its controlled subsidiaries, management **could** identify the reporting entity as the 'portion' containing A and B, but not C (reporting entity #1 in the diagram below). We believe that this would **not** be an appropriate circumscribed reporting entity for parent A. Rather, we believe that the primary financial statements that **should** always be prepared are those of

the group led by parent (A), including any subsidiaries (B and C, reporting entity #2 in the diagram below). We believe that the Framework should make this requirement explicit.



This 'primary' reporting entity concept should be included within the Framework because it is a conceptual notion. We believe that this concept is implicit behind the statements on parent-only financial statements in RE11, but it should be explicit, especially since there are no similar statements when 'portion' or 'combined' financial statements are discussed. Absent these changes, we believe there is an inconsistency between the notion of requiring consolidated financial statements and the identification of the reporting entity, as we describe in our response to Q2.

#### **Distinction between reporting entity and its shareholders**

The description of the reporting entity does not adequately describe the boundary between shareholders of the reporting entity and the reporting entity itself. This boundary is very important as the basis for developing standards, particularly when classifying an instrument as debt or equity.

For example, it was noted in the January 2010 IFRIC Update that the IFRS Interpretations Committee (the Committee) "received a request for guidance on whether a financial instrument in the form of a preference share that includes a contractual obligation to deliver cash is a financial liability or equity, if the payment is at the ultimate discretion of the issuer's shareholders... Diversity may exist in practice in assessing whether an entity has an unconditional right to avoid delivering cash if the contractual obligation is at the ultimate discretion of the issuer's shareholders, and consequently whether a financial instrument is a financial liability or equity." We understood that one of the reasons the Committee did not take this request onto its agenda was because the Boards were supposed to address this issue in the reporting entity framework. We do not believe this issue has been addressed.

Similarly, in recent discussions on the project on *Financial Instruments with Characteristics of Equity*, the Boards decided that an instrument that results in the issue of a specified number of shares only has an equity component if the reporting

entity has sufficient authorised shares to enable the share issue. In this case, the shareholders authorise the share capital. In this case, the action of the shareholders (the authorisation) has significant effects on the financial statements of the reporting entity. Accordingly, we believe the Boards need to address this issue before this Chapter of the Framework becomes effective.

#### **Interaction between nature of users and 'reporting entity'**

We believe that there may be unintended consequences of including the phrase 'who cannot directly obtain' (in RE2) in the description of 'reporting entity'. It is not clear whether the Boards' intention by including this phrase in the description of a reporting entity means that if the users of the financial statements **can** obtain that information directly, that by default, that circumscribed area is **not** a reporting entity. For example, the owners of a family-owned business **are** able to directly obtain the information from that business. By including this phrase in the description of a reporting entity, it could be interpreted that any financial statements for that circumscribed area do not comply with IFRS or US GAAP, as appropriate, because they do not meet the description of a reporting entity, for which the standards are written.

Some question, when circumscribing the area of economic activities, whether the fact that users can directly obtain the financial information is relevant. It could be argued that all that matters is defining the circumscribed area that is of interest to those potential users, and therefore, this phrase should be deleted from the description of a reporting entity. However, if the Boards decide to retain this phrase, they should explain why it is relevant to circumscribing the area of economic activity. In addition, they should clarify what this limitation means when financial statements are prepared for that entity. Otherwise, divergence might emerge in interpreting these questions.

#### **Management and governing board**

We are concerned that the references to '**management and the governing board**' (RE1 and RE2) imply that the reporting entity itself must have a management and a governing board. While this is generally true when the reporting entity is a legal entity, it might not be true when the reporting entity is a 'portion' or 'combination' (e.g., a branch or division). While such 'portions' etc. would have a management or governing board at some level (e.g., at the ultimate parent level, which authorises the financial statements for issue and allocate resources), there should **not** be a requirement for the reporting entity to have management or governing board at the level of the reporting entity. Thus, we recommend that the Boards delete these references in RE1 and RE2, or clarify that such management or governing board might be at a different level.

### **Features of a reporting entity**

We agree with changing 'business activity' to 'economic activity' (in RE2 and RE3), because we agree that it avoids confusion with the concepts in IFRS 3 *Business Combinations* and the FASB Accounting Standards Codification 805 *Business Combinations*. In addition, this change enables financial statements to be prepared for single-asset entities, which we support. However, additional guidance is needed at the standards level on the characteristics of 'economic activity', given this is a key concept used in all three features in RE3.

We agree with including the phrase 'will be conducted' (in RE3(a)), because we agree that start-up activities are, and should be, within the scope of 'economic activities.' However, additional guidance is needed at the standards-level to ensure that this is not used to produce 'pro forma' financial information that is presented as being a fair presentation, or true and fair view, under US GAAP or IFRS, respectively. Similarly, we agree with including the phrase 'has been conducted' (in RE3(a)), but additional guidance is needed to ensure that unprofitable operations that will be spun-off are not excluded, when they should be treated as 'discontinued operations'.

### **Reporting entity vs. legal entity**

The concepts and intent behind RE5 are not clear, primarily because of the references to control, and the (perhaps unintended) implication that a reporting entity that **does** control another entity cannot be presumed to be a reporting entity.

Some believe that, given the context of BC9, the Boards were establishing a rebuttable presumption 'A single legal entity that conducts economic activities **and does not control any other entity** is likely to qualify as a reporting entity.' We agree that there should be a presumption that a legal entity should be the starting point in determining what constitutes a reporting entity. We also believe that this presumption should extend to any controlled entities of that legal entity, such as is common in many group structures. However, it is not clear whether the phrase 'and does not control any other entity' is intended to limit the established presumption.

Alternatively, some believe that the Boards were trying to illustrate an example of the judgments that must be applied to RE3(a). If so, this concept might be described more clearly by stating that there is a continuum, from the simplest entities (a legal entity that does not control any other subsidiary) ranging to the most complex (a legal entity that is 'commingled' with other entities). In this case, the Boards should consider whether to place legal entities that control other entities, but are not 'commingled' on this continuum, given that such structures are common. In any case, the Boards should clarify RE5 so that the intention and meaning is clear.

2. Do you agree that if an entity that controls one or more entities prepares financial reports, it should present consolidated financial statements? Do you agree with the definition of control of an entity? (See paragraphs RE7, RE8 and BC18-BC23.) If not, why?

**Definition of 'control'**

We understand from our discussions with the staff on the *Consolidation* project, that it was the intention to use the same definition of 'control' in both that project and this Chapter. We agree with that intention. It is not always necessary to have identical definitions between the Framework and the standards, given that they have different objectives. However, the definitions should be identical given the concurrent timing and the fact that both refer to control of an entity (vs. an asset).

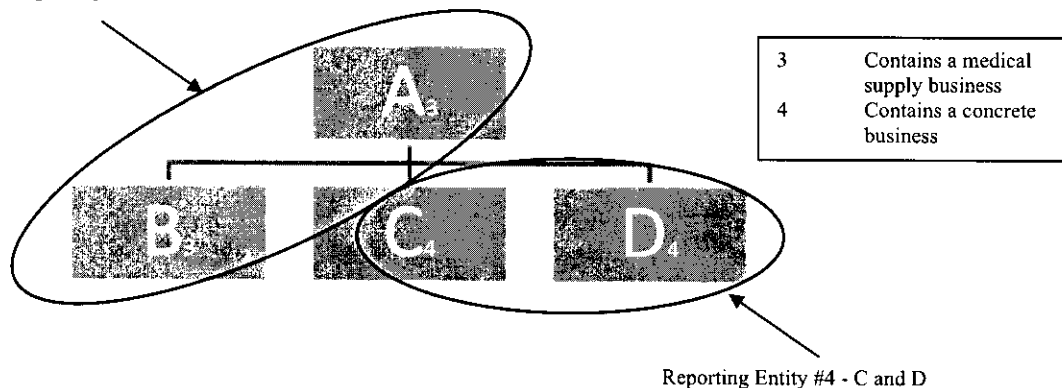
**Circumscribed 'reporting entity' vs. requirement to consolidate**

We agree that when an entity controls another entity, the ultimate parent should provide consolidated financial statements - these would be the 'primary' financial statements, as described in our response to Q1. However, the ED currently raises the question of precedence: the identification of the reporting entity, or the requirement to present consolidated financial statements. This question manifests itself in a variety of ways:

- ▶ Is a parent (without its subsidiaries) that meets the criteria in RE3 considered a reporting entity, or are financial statements for such entity considered useful, but outside the reporting entity framework?
  - ▶ We support the former, because a parent without its subsidiaries might have the three features (in RE3).
  - ▶ However, it is not clear whether a parent without its subsidiaries is a reporting entity, partly because RE11 does not refer to 'reporting entity'.
  - ▶ In addition, a parent without its subsidiaries might meet the criteria in RE3 to be described as a portion, which is a reporting entity.
  - ▶ In such cases, there is some concern that management might conclude that if they describe the parent-only financial statements as those of a 'portion,' they could circumvent the requirements in RE11 to also present consolidated financial statements for that parent.
  - ▶ If the Boards wish to prevent this outcome, they should clarify whether a parent can also be a portion, and if so, whether RE11 still applies.

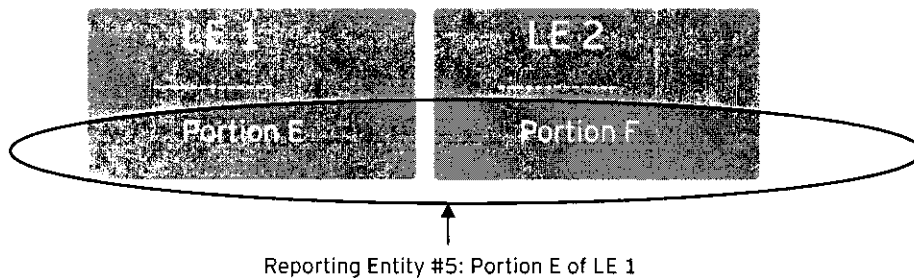
- ▶ Can reporting entities involve partial consolidation?
  - ▶ Assume that Parent A has three subsidiaries, B, C and D (As shown in the diagram below). A and B have medical supply businesses. C and D have a concrete business.
  - ▶ Can management prepare financial statements for each of A/B (reporting entity #3 in the diagram below) and C/D (reporting entity #4 in the diagram below), assuming that they meet the criteria in RE3? Can the financial statements for A/B exclude the results of operations of C/D (even though A controls C/D) and not show C/D as discontinued operations?
  - ▶ **View 1 - each of A/B and C/D are 'portions' of an entity. Therefore, A/B is a reporting entity.** We support View 1, because we believe that it is the most consistent application of the reporting entity concept. However, it is not clear what type of financial statements are presented. They are not consolidated financial statements, because they do not include all entities that A controls. However, they are not combined financial statements, because the phrase 'combined financial statements **do not** include the information about the controlling entity' in RE12 restricts A/B from providing combined financial statements. The Boards should describe financial statements for a 'portion' in the section on 'other types of financial statements.' Alternatively, if the Boards did not intend for RE12 to be restrictive, they should instead state that the 'combined financial statements **are not required to include** information about the controlling entity.'
  - ▶ **View 2 - A/B is not a 'portion,' and therefore not a reporting entity (without C/D), because A is a parent and must prepare consolidated financial statements, in accordance with RE8.** If the Boards hold this view, they should state this fact when describing a 'portion' and reconcile this view with the features of a reporting entity in RE3.

Reporting Entity #3 - A and B





- ▶ Can 'portions' consolidate or combine (commonly referred to as 'carve-out' financial statements)?
  - ▶ Assume that E and F are portions of two different legal entities (as shown in the diagram below), and management wants to prepare financial statements for E and F together (reporting entity #5 in the diagram below).
  - ▶ We believe that it should be clear that consolidated (or combined) financial statements of E and F are permitted (assuming the criteria in RE3 are met).



The ED sets 'rules' for one situation - a parent with subsidiaries - without constraining other types of reporting entities, and without specifying that the 'primary' reporting entity is a parent and all of its subsidiaries. Thus, we believe an inconsistency arises over which concept takes precedence - the circumscribed reporting entity, or the requirement to consolidate.

3. Do you agree that a portion of an entity could qualify as a reporting entity if the economic activities of that portion can be distinguished from the rest of the entity and financial information about that portion of the entity has the potential to be useful in making decisions about providing resources to that portion of the entity? (See paragraphs RE6 and BC10.) If not, why?

Generally, we agree that a portion of an entity could qualify as a reporting entity if the economic activities of that portion can be distinguished from the rest of the entity and financial information about that portion of the entity has the potential to be useful in making decisions about providing resources to that portion of the entity. We support including this paragraph, because this is currently one of the most debated issues related to the concept of 'reporting entity' and is therefore helpful.

**'Commingled' economic activities**

We believe that the phrases 'objectively distinguished' and 'commingled' are particularly relevant in financial statements for a 'portion,' even though both terms are not used in this context. However, we question whether it is necessary to retain both terms, because the term 'commingling' seems to be used simply to illustrate an instance when it is difficult to 'objectively distinguish' the economic activities, in which case, it might be clearer to state this fact, without using a new term. However, if the Boards intended the phrases to have different meanings, this should be clarified.

In addition, more guidance is necessary, so that the principle 'objectively distinguished' (and 'commingled' if it is intended to be a different concept) can be applied consistently in practice. This guidance is needed at the standards level (by the time this Chapter of the Framework becomes effective) so that diversity in practice will not emerge. Otherwise, it will be difficult to make this section of the Framework operational.

For example, does it matter whether the parties transact on commercial terms for services? What criteria would the Boards use to determine if there is 'commingling' in the following situations, and therefore, whether the economic activities can be 'objectively distinguished':

- ▶ A 'shared service centre' in one division provides services to other divisions within the group - can the shared service centre division be a reporting entity 'portion'?
- ▶ One division owns an intangible asset (e.g., software, patent, trademark) that is used by other divisions within the group - can the division owning the intangible asset be a reporting entity 'portion'?



- ▶ A parent guarantees a loan of a subsidiary within the group - can the subsidiary be a reporting entity?
- ▶ A parent borrows from a third-party lender and uses the proceeds to fund divisions of the group - can any single division alone be a reporting entity 'portion'?
- ▶ A division is vertically integrated in a group - can that division alone be a reporting entity 'portion'?
- ▶ A group that is located in one jurisdiction is taxed based on the taxable income for the group, rather than for each subsidiary - can any single subsidiary alone be a reporting entity?

Depending on how the Boards view 'commingling' and whether economic activities can be 'objectively distinguished', the situations above might not meet the criteria to be identified as a reporting entity. As a result, we would be concerned that the prohibition against 'commingling' might mean that separate financial statements and combined financial statements, which are currently prepared under US GAAP and IFRS, would no longer be permitted, even when required by regulators. A lack of clarity might lead to divergence in the views of regulators on whether such financial statements are permitted in the circumstances above and whether such financial statements are general-purpose.

4. The IASB and the FASB are working together to develop common standards on consolidation that would apply to all types of entities. Do you agree that completion of the reporting entity concept should not be delayed until those standards have been issued? (See paragraph BC27.) If not, why?

We agree that the **completion** of the reporting entity concept should not be delayed. Generally, it is preferable to have the Framework first, on which the standards are then developed. However, even if the concept is complete, this Chapter should not become effective until the standards-level application guidance is also effective (See Q3). While US GAAP does provide standards-level or regulatory guidance in these matters, such guidance does not exist under IFRS. It is **imperative** to have IFRS standards-level guidance, particularly related to combined (or carve-out) financial statements and financial statements for a 'portion'. Otherwise, this Chapter is not operational under IFRS. If that is not practicable, then the IASB should add a project to its agenda to develop standards-level guidance as quickly as possible, to prevent divergence in practice (both within IFRS and between US GAAP and IFRS).

Before the IASB develops its guidance, the Boards should converge on whether and how an investee should recognise a transaction entered into on its behalf by its shareholders, which is a fundamental principle when preparing financial statements for any reporting entity other than the consolidated group of the ultimate parent. As we noted in our response to Q1, we believe clarity on this issue is needed at the conceptual level on the boundary between the reporting entity and its shareholders, on which to base standards-level guidance. US GAAP generally requires accounting for the imputed and implicit transactions between the 'reporting entity' and the excluded parts of that group that contains that reporting entity. In contrast, under IFRS, absent specific requirements to impute a charge for group transactions on behalf of a reporting entity (such as are required for group share-based payment transactions), an entity generally has an accounting policy choice of whether to 'impute' such transactions. This lack of guidance in IFRS currently leads to significant divergence (within IFRS, and from US GAAP).

Standards-level guidance should address items such as the allocation of treasury costs, borrowing costs, and other costs that are incurred by the parent and that benefit the 'portion' (which might be a subsidiary). It should also address whether to apply pooling, 'fresh start' accounting, and first-time adoption. This guidance should also address the interaction between the concept of reporting entity and legal mergers. There is currently no accounting guidance for legal mergers, and therefore there is divergence in practice in determining which financial statements should be used as the predecessor's financial statements (and used to determine the prospective carrying amounts when two reporting entities merge).

## Appendix B: Other comments to the ED

### Requirement to consolidate

We find the guidance in RE8 to be unclear. The first sentence seems to provide the basis for concluding that when an entity controls another entity (whether 'legal' or 'portion'), such entities comprise the reporting entity. The second sentence seems to indicate that in such case, the reporting entity prepares consolidated financial statements. However, the term 'entity' is used throughout, and it is not clear whether this refers to a 'legal entity' or 'reporting entity.' In addition, it is not clear whether this guidance is establishing a rebuttable presumption, or is stating a general observation ('often depend'). Furthermore, we are confused about the use of 'should'; generally the Boards avoid using 'should' in favour of 'shall'. We recommend that the Boards also consider whether any of this guidance should be moved to the Basis for Conclusions, as it seems to be supporting a principle, rather than stating a principle and the underlying requirements.

### Joint control and significant influence

The relevance and wording of RE9-RE10 are unclear. The guidance in RE9 seems to refer to 'joint control' but does not use that terminology, even though it is used in BC16. We recommend that the Boards explicitly refer to 'joint control'. In addition, the reasons for including these paragraphs should be expanded beyond what is already included in BC16-BC17, either in the Framework or in the Basis for Conclusions, and the principle clarified. Is the intention to describe other entities and relationships that might be considered when identifying the boundaries of the reporting entity, but which the Boards have concluded should be excluded, because those other entities are not controlled? If so, this should be stated more clearly.

### Parent-only financial statements

We agree that when an entity controls another entity, that entity should provide consolidated financial statements - these would be the financial statements of the primary reporting entity, as described in our response to Q1.

However, in many jurisdictions, entities have a statutory requirement to provide separate (parent-only, unconsolidated) financial statements in accordance with IFRS next to their consolidated financial statements (e.g., UK), or are permitted to use IFRS or local GAAP, and are not necessarily required to present consolidated financial statements with them. Currently, IAS 27 *Consolidated and Separate Financial Statements* exempts intermediate parent entities from also providing consolidated financial statements as long as certain criteria are met.

RE8 states, "If an entity that controls one or more entities prepares financial reports, it should present consolidated financial statements." However, RE 11 states that "'parent-only' financial statements might provide useful information if they are presented **together with** consolidated financial statements." It is not clear whether the phrase 'together with' is intended to change the current requirements of IAS 27, such that intermediate parents would have to provide sub-level consolidated financial statements. This would be a significant change in current practice under IFRS, because this exemption is frequently used by entities in jurisdictions that only have a statutory requirement to present separate (parent-only, unconsolidated) financial statements in accordance with IFRS.

It is also not clear whether the description of a reporting entity and the guidance in RE11 permits an entity to prepare 'separate financial statements,' if it only holds interests in joint ventures and associates. This situation should be addressed.

#### **Combined financial statements**

As stated in our cover letter, we support including the concept of 'combined financial statements' in the Framework, because that is one of the most problematic areas regarding the concept of 'reporting entity' in current practice.

It is not clear whether a combined entity (that meets the criteria in RE3) is considered a reporting entity, or whether financial statements for such an entity might still be useful, but are outside the reporting entity framework. We presume the former, because a combined entity can have the three features (in RE3) and could be a 'portion.' However, this is not explicit, and RE12 does not refer to 'reporting entity', leaving room for doubt.

The phrase 'and are often prepared when the controlling entity does not prepare financial statements' is confusing and might be overly restrictive. Some read that phrase as implying that combined financial statements cannot be prepared when the controlling entity **does** prepare financial statements. We believe that combined financial statements should still be permitted when the controlling entity prepares consolidated financial statements. For example, combined financial statements for two 'portions' of a legal entity, or two subsidiaries, might provide decision-useful information. Accordingly, we recommend that if the Boards do not intend for this statement to be read restrictively, that it be clarified.

It is also not clear whether combined financial statements must include **all** commonly controlled entities. Assume that a family owns businesses E, F, and G, and **all** are under common control of that family. The family wants to prepare combined financial statements for only E and F. The sentence "Combined financial statements might provide useful information about the commonly controlled entities **as a group**" in

RE12 might be read restrictively, because it implies that combined financial statements must include **all** commonly controlled entities. We believe that combined financial statements should be permitted for any (but not necessarily all) commonly controlled entities, and suggest deleting this sentence, because it does not add any value, but instead creates confusion.

There is very little in the Basis for Conclusions on the topic of combined financial statements. The Boards should give additional support for their conclusions, particularly in relation to the points discussed above, which would assist with its application in the manner intended by the Boards.

#### **Dual-listed companies, stapled entities and similar entities**

Other reporting structures do not fit within either the control model or the common control model. These reporting structures include dual-listed companies, stapled entities, and cooperative banking groups (see descriptions below). Under current IFRS, the dual-listed company, stapled-entity or similar entity identifies a parent entity (which is one of the two entities) and produces consolidated financial statements. However, the equity of the other 'subsidiary' entity is presented as a non-controlling interest. We do not believe that this accounting represents the underlying substance of these arrangements.

It appears that combined financial statements could be presented for dual-listed companies, stapled entities, and similar entities, using the guidance in this ED. However, it is not clear whether, or how, such combined financial statements should present a non-controlling interest, and if so, how such amount is measured. Standards-level guidance is needed for such situations. In addition, it would be helpful if the Framework could refer to these entities as examples of structures that do not fit into the normal legal control structures but that are clearly reporting entities. In addition, if the Boards require financial statements of the primary reporting entity, which are consolidated financial statements, as we recommend, it is not clear how to identify which of the two entities should be the 'parent' entity.

#### *Dual-listed Companies*

The Australian Stock Exchange allows entities to list as a 'dual-listed company' (DLC) arrangement. In such arrangements, the activities of the two entities are managed as a single economic entity under a contractual arrangement, while retaining their separate legal identities. In these cases, neither entity necessarily acquires an ownership interest in the other entity, nor are the individual legal entities combined into a new legal entity. The securities of the entities comprising the DLC are normally quoted, traded, or transferred independently of each other in different capital markets. The contractual agreements underlying a DLC result in an economic entity in which the shareholders of the legal entities have a common economic interest,

including arrangements to ensure that all shareholders receive equivalent dividends and voting entitlements, irrespective of the particular contracting company in which they hold shares. The legal entities also enter into cross guarantees. This means that investors, creditors and others should have regard to the net assets of the combined entities. In addition, in the event of liquidation, equalisation arrangements ensure equal distribution of any surplus assets to ordinary shareholders of each entity.

*Stapled arrangements*

Stapled arrangements are common in Australia in the property and infrastructure sectors, and are used occasionally in other jurisdictions. Usually the arrangement involves a company and a trust, and while the trust owns the assets, the operations are conducted through the company. Such an arrangement facilitates the streaming of tax benefits to parties with different tax characteristics. A stapled arrangement involves the equity holders in two entities agreeing to 'staple' their securities together. For example: entity A's shareholders agree to staple each of their shares in A to a share in B, while allowing A to issue shares to the B shareholders so that they can also staple each of their B shares to an A share. Stapled securities cannot be traded or transferred independently and are quoted at a single price. The stapling of the equity securities of two or more legal entities results in those entities having equity holders in common. As such, the financial performance of an investment in a stapled security is dependent on the financial performance of all the entities whose securities are stapled. The performance of both stapled entities is reflected in the price of the stapled security.

**Other drafting comments:**

It is unclear why the ED refers to 'financial information' instead of 'financial statements' or 'financial reporting,' which are the subject of the Standards. Is this an intentional distinction? This wording could be confusing in certain jurisdictions, where the regulator requires additional financial information to be presented (outside of the financial statements), which is not necessarily subject to IFRS or US GAAP. Therefore, we recommend changing references to 'financial information' to 'financial statements' or clarifying the reasons for the difference.