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TO:	**MEMBERS OF THE TECHNICAL COMMITTEE**
FROM:	**TSHOLO TSHOKE**
SUBJECT:	**ISSUES PAPER – COMBINED FINANCIAL STATEMENTS**
DATE:	**13 AUGUST 2019**
FILE REF:	**Attachment 6(a)**

PURPOSE

1. Based on the work programme consultation for 2017 to 2020 the Board agreed to add a project to its work programme on combined financial statements. In line with the approved project brief (refer to attachment 6(b)), the project will be undertaken in two parts – development of an issues paper which will be followed by the development of the proposed Standard of GRAP.

2. The purpose of this paper is to:

   (a) Outline the background and objective of the project.

   (b) Provide background about the reporting entity concept in the Conceptual Framework.

   (c) Share the results of the initial research.

   (d) Share the feedback from initial engagements with stakeholders.

   (e) Discuss the key issues identified in the project

BACKGROUND OF THE PROJECT

3. Respondents to ED 138 on *Identifying Projects to Prioritise on the ASB's Work Programme for 2017 to 2020* supported the notion of consolidated financial statements for the whole of government (i.e. national, provincial and local government) and sector reporting (i.e. "consolidated" reporting on programmes). It was agreed that these two aspects could be addressed in a project to develop guidance for the preparation of certain types of financial statements where the basis of the combination is not control in accordance with GRAP 35.

4. The objective of the project is to develop a Standard of GRAP that provides guidance on preparing financial statements that combine the information of specific entities, activities, or sectors, where there is no control. Consequently, the guidance would

establish new principles for the preparation and presentation of a range of financial statements applying the reporting entity concept in the Conceptual Framework.

BACKGROUND TO THE REPORTING ENTITY CONCEPT

Reporting entity in the Conceptual Framework

5. The reporting entity concept is an important aspect of financial reporting. The concept was not defined in the Standards of GRAP until the Board made revisions to the Conceptual Framework in 2015.

6. In revising the Conceptual Framework, the Board considered the IPSASB's Conceptual Framework which was issued in 2014, as well as some aspects of the proposals by the IASB to revise its Conceptual Framework. Consequently, the reporting entity concept in the Conceptual Framework is consistent with that of the IPSASB and IASB with slight modifications to suit the local environment, as explained below.

7. The concept is used to identify when an entity should prepare general purpose financial reports (GPFRs). The following definitions are found in the Conceptual Framework:

   - *Reporting entity* - A government or public sector organisation, programme or identifiable area of activity that chooses, or is required, to prepare GPFRs.

   - *Group reporting entity* - GPFRs are sometimes prepared for two or more portions of entities or separate entities that usually have no control relationship with each other. These GPFRs are presented as if they are a single entity.

8. While maintaining alignment with the IPSASB's Conceptual Framework, the Board decided to modify some aspects of its guidance. In particular:

   - It clarifies that a reporting entity could choose or be required by legislation to prepare GPFRs. A distinction is made between financial statements prepared to meet the requirements in the Standards of GRAP, and those that are prepared by a reporting entity because there is a legal requirement for that specific reporting entity to do so.

   - It explains that where there is control, then the group reporting entity is an economic entity that is required to prepare consolidated financial statements based on the Standards of GRAP. In the absence of control, then the group reporting entity is not an economic entity.

9. The Board's view was that including guidance on the reporting entity in the Conceptual Framework would be useful to address circumstances when (a) legislation requires entities to prepare financial statements, (b) an entity is required by legislation to prepare financial statements but also elects to prepare financial statements for a portion, programme or identifiable area of activity within an entity, and (c) legislation does not identify a specific entity as a reporting entity (i.e. unlisted entities).

10. The Board was of the view that the identification and boundary of a reporting entity these circumstances will be dependent on the key characteristics of the reporting entity and whether the financial statements prepared for that reporting entity achieve the objectives of financial reporting. The key characteristics of a reporting entity are that:
    - it is an entity that raises resources from, or on behalf of, constituents and/or uses resources to undertake activities for the benefit of, or on behalf of, those constituents; and

- there are service recipients or resource providers dependent on the GPFRs of the entity for information for accountability or decision-making purposes.

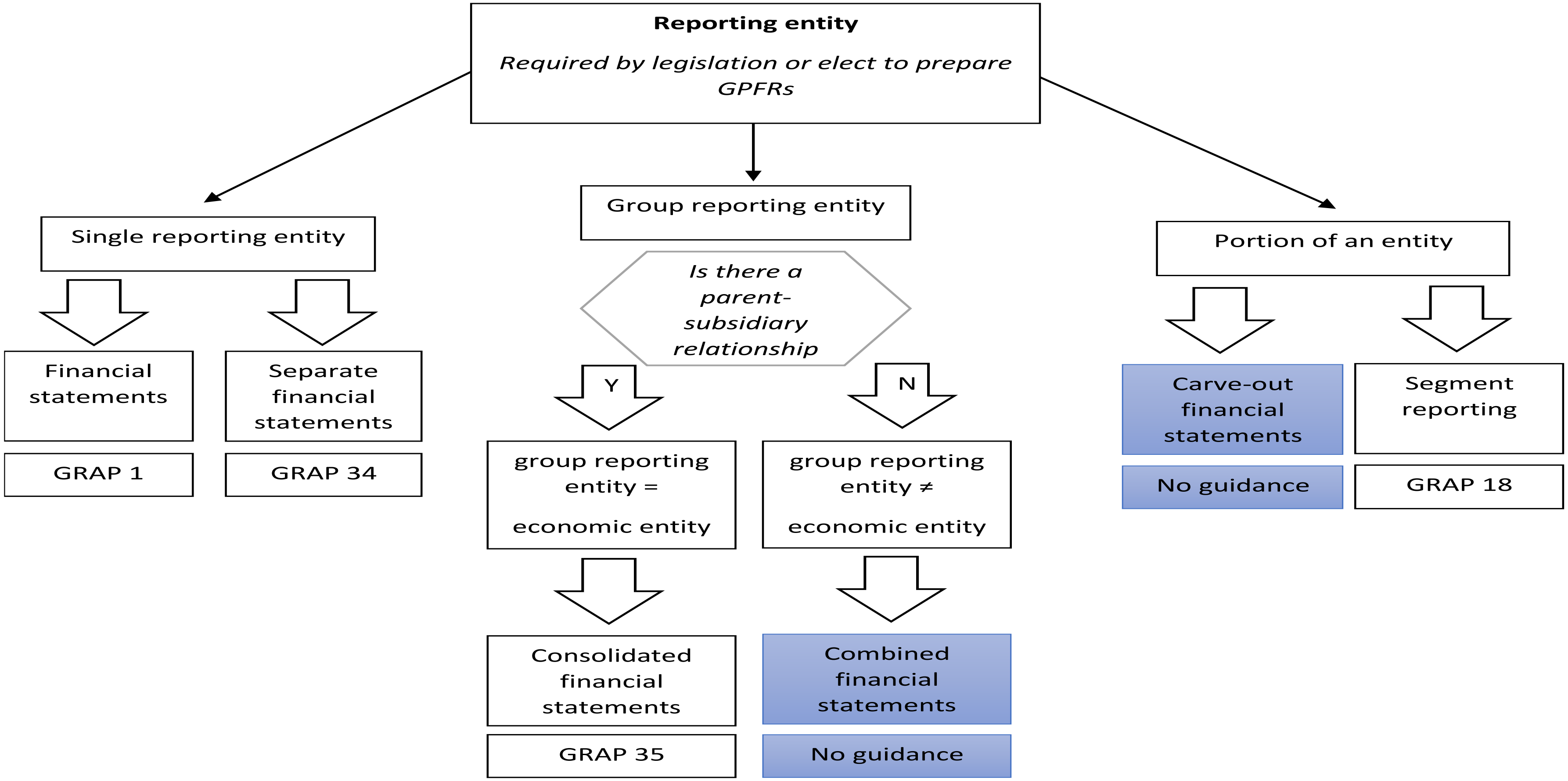
IASB's latest thinking on the reporting entity

11. The IASB's Conceptual Framework was finalised and issued during 2018. The IASB's Conceptual Framework defines combined financial statements. It notes that a reporting entity's financial statements that comprises two or more entities that are not all linked by a parent-subsidiary relationship are combined financial statements.

12. While the IASB has acknowledged the existence of combined financial statements, it does not discuss when or how they should be prepared. The IASB explains the difficulties in determining the appropriate boundary when the reporting entity is not a legal entity and the entities are not linked by a parent-subsidiary relationship. It concludes that in such cases the boundary will be dependent on the users' information needs. The IASB does provide some factors for consideration to ensure that information in the combined financial statements is faithfully represented. The IASB has not provided any indication on when it will consider developing guidance at a standard's level.

13. The diagram below illustrates what a reporting entity is, the type of financial statements it could prepare, and the guidance that is applied in the preparation of those financial statements, if available.

Diagram 1: The reporting entity



Note: The terms combined financial statements or carve-out financial statements are explained in the section dealing with results of the initial research.

14. From the above diagram, it can be seen that the reporting entity is not limited to a legal entity, and that the group reporting entity is also not limited to an economic entity or any other type of entity that may be defined in the Standards of GRAP.

15. As such, the project scope could include those areas for which guidance does not currently exist. In particular, the project could address circumstances when financial statements are prepared for:

    (a) A portion of an entity, programme or identifiable area of activity. For the purposes of this paper, the financial statements prepared in this case are referred to as "carve-out financial statements".

    (b) Two or more portions of entities or separate entities that have no control relationship with each other are presented as a single entity. For the purposes of this paper, the financial statements prepared in this case are referred to as "combined financial statements".

ACTIONS REQUIRED

The Technical Committee is requested to NOTE the background to the reporting entity concept.

RESULTS OF THE INITIAL RESEARCH

16. The Secretariat set out to understand the current landscape in relation to the application of the reporting entity concept, and the nature and extent of practices for the preparation of combined and/or carve-out financial statements in the public and private sector.

(a) Practice in the public sector

17. As noted in the previous section, the reporting entity concept was not defined until recently. Research indicated that there is no public sector specific guidance on the preparation of combined and/or carve-out financial statements.

IPSASB

18. When the IPSASB developed its Conceptual Framework, it decided not to provide any guidance on the circumstances in which an entity or activity should be included in the group reporting entity as it believed that such guidance will be more appropriate at a standards level. There is no indication when the IPSASB will consider developing further guidance on the reporting entity concept at a standards level.

Other standard-setters

19. Based on informal discussions with standard-setters and other similar organisations in Australia, Canada, UK and Switzerland it was noted that these jurisdictions do not have guidance that deals with combined and/or carve-out financial statements.

(b) Practice in the private sector

Background

20. Combined and/or carve-out financial statements are commonly used in the private sector. It is common practice for combined and/or financial statements to be prepared

for specific capital market transactions such as business combinations, disposals, spin-offs and initial public offerings.

21. The results below are based on the review of guidance that existed before the IASB revised its Conceptual Framework in 2018. Several sources and guidance were reviewed:

- IFRS for SMEs.
- *Combined and Carve-out Financial Statements - Analysis of Common Practices* (Federation of European Accountants). The Paper considers the international technical background – IFRS, Italian GAAP, US GAAP and UK GAAP; as well as the regulatory requirements in some jurisdictions.
- Practical guide to IFRS – Combined and carve out financial statements (PwC).
- Combined and/or carve-out financial statements – IFRS application guidance (KPMG).

IFRS for SMEs

22. IFRS for SMEs includes a definition as well as the principles for accounting for combined financial statements. Combined financial statements are defined as *a single set of financial statements of two or more entities under common control*[1]. Common control means that *all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory*[2].

Other guidance

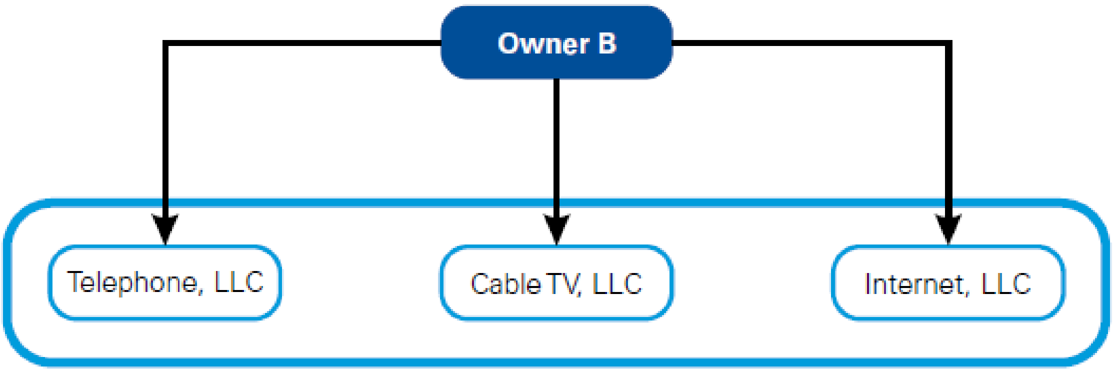
23. In the absence of accounting guidance in the standards, guidance has been developed in some jurisdictions. The guidance may have been included in the local GAAP or specific regulatory requirements for the preparation of combined and/or carve-out financial statements. For example, in the United Kingdom, United States, Australia and Hong Kong there are specific requirements[3]. In other instances, given the prevalence of capital market transactions, some audit firms have developed their own guidance based on common practices globally.

24. The research revealed that there are circumstances when financial information is required for part or parts of a group in connection with specific capital market transactions. Diagrams 2 to 4 below illustrate some of the transactions that may require the preparation of combined and/or carve-out financial statements.

[1] IFRS for SMEs paragraph 9.28.
[2] IFRS for SMEs paragraph 19.2(a).
[3] UK – Standards for investment reporting (SIR) 2000; USA – SEC Codification of Accounting Bulletins Topic 1.B; Australia – Disclosing non-IFRS financial information; Hong Kong – Hong Kong Listing Rules; Canada – Companion Policy to National Instrument 41-101.

Diagram 2: Example of combined financial statements

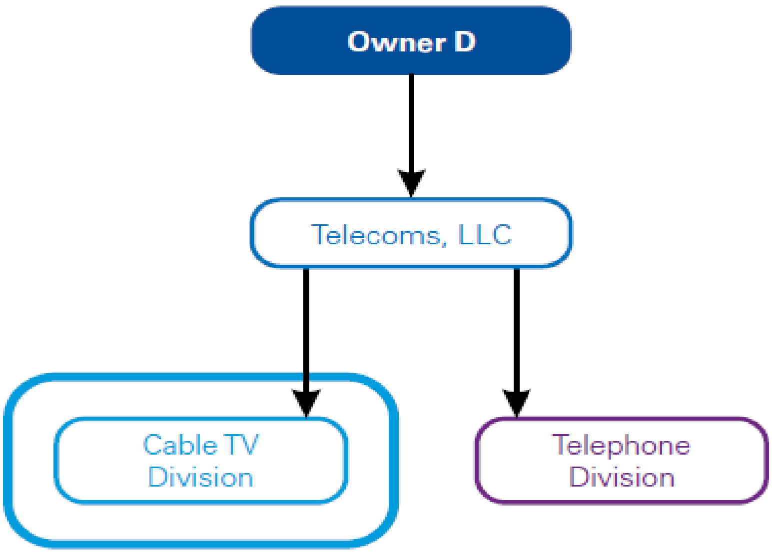
Owner B has three separate businesses comprising separate legal entities that each prepare stand-alone financial statements. B 'combines' the stand-alone financial statements into a single set of combined financial statements in preparation for an IPO.



Source: Combined and/or carve-out financial statements – IFRS application guidance (KPMG)

Diagram 3: Example of carve-out financial statements

Owner D has a cable and telephone business that is part of a single legal entity. D 'carves out' the cable division into a set of carve-out financial statements in preparation for an IPO.

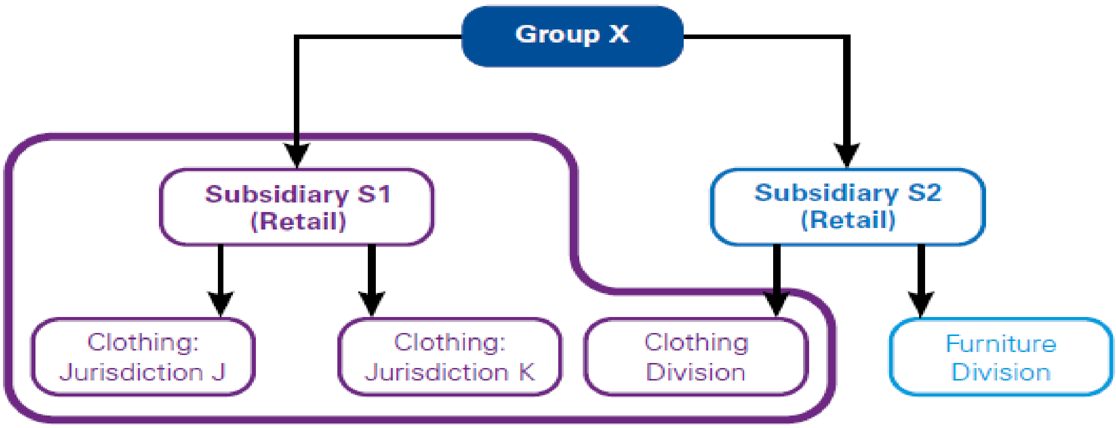


Source: Combined and/or carve-out financial statements – IFRS application guidance (KPMG)

Diagram 4: Example of combined and carve-out financial statements

Group X operates across a number of jurisdictions, with interests in both clothing and furniture. X wishes to carve out and sell its clothing division in an IPO, and is required by regulation to prepare combined and carve-out financial statements for the clothing operations.

As the following diagram illustrates, this involves combining clothing operations from Jurisdictions J and K owned by Subsidiary S1 and carving out a portion of Subsidiary S2.



Source: Combined and/or carve-out financial statements – IFRS application guidance (KPMG)

25. The guidance reviewed provided an understanding of the nature and extent of the practices involved in the preparation of combined and/or carve-out financial statements. The table below summarises the common aspects of the guidance reviewed, as well as the Secretariat's key observations:

Area	**Observations**
Characteristics	Material reviewed refers to combined and/or carve-out financial statements. It notes that in some jurisdictions these terms are used interchangeably, while in others the terms are used exclusively. Combined financial statements are prepared by aggregating financial statements of two or more economic activities (e.g. separate entities, segments or components of groups). <u>Characteristics</u> • Based on historical financial information. • Consist solely of whole legal entities. • Activities are not linked by a parent-subsidiary relationship. • Activities are usually under common control. • Each economic activity has its own separate accounting records that enabled it to prepare stand-alone financial statements. • Entities could operate as stand-alone businesses.

	Carve-out financial statements include one or more components that are parts of a larger reporting entity. This term reflects that a smaller component e.g. unincorporated businesses such as divisions – are being carved out from a larger reporting entity. <u>Characteristics</u> • Based on historical financial information. • Consist of smaller components of a larger reporting entity. • Components are usually under common control. • Each component does not usually have its own accounting records, but certain financial metrics may be tracked for internal reporting purposes. • Components cannot operate as stand-alone businesses.
Primary users	Potential and existing investors, lenders and regulators interested in the specific financial information relating to the issuer of securities.
Basis of preparation	• Basis of preparation depends on particular purpose of the reporting entity and users. • Assumption is that combined and/or carve-out financial statements are prepared to comply with IFRS Standards. • In identifying the boundary of the reporting entity, there are three binding elements recognised in practice – *common control, common management and common business* which bind the economic activities into one reporting entity. Common control is viewed as the most appropriate, and there is a notion that without common control it would be impossible to identify the reporting entity.
Accounting requirements	• Key principle is to apply all the requirements under IFRS Standards (or IFRS for SMEs) when preparing combined and/or carve out financial statements. • Most entities apply the consolidation accounting principles. Aggregate all assets, liabilities, expenses, and revenue; and eliminate intercompany transactions and balances. • May need to allocate shared costs to the respective activities.
Practical issues	• Criteria used in defining which economic activities or components to include in the reporting entity. • Selection of accounting policies for the reporting entity. • Approach and methodology for allocation of shared costs and taxes. • Application of IFRS 1 – determine whether reporting entity will be a first-time adopter of IFRS.

	• Approach for collating information – extracted from the consolidation financial statements to which economic activities belong or built-up from separate economic activities financial statements. • Treatment of related party transactions, subsequent events and segment reporting in the reporting entity.

26. The observations reflect the thinking and practice that developed in the absence of accounting guidance on the preparation of combined and carve-out financial statements. It also indicates some of the practical challenges that the project will need to consider when developing guidance. Some of the key observations will need to be considered further as they may be used to address the key issues identified by the Board in the project brief.

27. The review of the practice that developed over the years was helpful and was used to initiate some discussions with relevant stakeholders, as discussed below.

ACTIONS REQUIRED

The Technical Committee is requested to NOTE the initial research undertaken.

FEEDBACK FROM INITIAL ENGAGEMENTS WITH STAKEHOLDERS

28. In light of the results of the initial research, the Secretariat considered it necessary to initiate discussions with stakeholders to determine whether there are regulatory requirements requiring the preparation of combined and/or carve-out financial statements, and to assess in what other circumstances the proposed guidance would be required.

(a) Feedback from the JSE

29. The research identified that some jurisdictions have regulatory requirements to prepare combined and/or carve out financial statements. The Secretariat engaged in discussions with the JSE to understand if there are any existing requirements in the Listing Requirements for equity and/or debt issuers to provide financial information in the form of combined and/or carve-out financial statements.

30. The discussions revealed that combined and/or carve-out financial statements are only required for equity issuers for acquisition or disposal of equity interests. The financial statements would typically be prepared on a historical basis, or hypothetically to show the effects of a planned transaction. The financial information is necessary as the transaction could change the legal structure of the issuer, and the historical information of the existing legal entity or group does not sufficiently represent the economic activities of the reporting entity that will be formed after the transaction.

31. It was noted that the JSE does not have specific guidance available for the preparation of these types of financial statements and would usually assess the appropriateness of the financial information on a case-by-case basis. It was also confirmed that to date, there is no similar requirement for debt-issuers. However, if there were to be such a

requirement, the current approach to assess and provide a ruling on the financial information would be on a case-by-case basis. It was noted that if the Board were to develop guidance for the preparation of these types of financial statements, then debt issuers (applying Standards of GRAP) will be expected to have applied the proposed guidance in the Standards of GRAP in the preparation of their financial information, and the JSE would assess the information on that basis.

32. When asked about whether the basis for the boundary of the reporting is common control as highlighted in other jurisdictions, it was explained that common control is necessary both before and after the combination as the consolidation accounting principles are applied in full. It was explained that the financial statements are prepared to achieve fair presentation and compliance with IFRS Standards, as such no combined and/or carve-out financial statements have been identified where there is no common control throughout the period being reported.

33. It was noted that the preparation of these types of financial statements is complex and sometimes challenging. In particular, it was noted that there are usually debates about the appropriate principles for allocating revenues, overheads, taxes and debt to the reporting entity particularly when they are not clearly identifiable or attributable to the economic activities being combined or carved out. In addition, complexities will also arise with certain disclosures such as related party transactions.

(b) Feedback from the Office of the Accountant-General (OAG)

Background

34. The project brief indicated that one of the areas that the proposed guidance would be used is in the preparation of whole of government financial statements for all three spheres of government, and sectoral reports.

35. Last year, the Board undertook a project that considered the practical challenges relating to the preparation of consolidated financial statements by the national and provincial treasuries. One of those challenges was the extent to which the principles in the Standards of GRAP were applied in those consolidations. The project revealed that the basis of preparation states that the current consolidations are not fully compliant with the GRAP 6 as no specific controlling entity has been identified – legislation lists which entities should be consolidated and accountability to Parliament is the primary driver for deciding which entities should be included in the consolidation.

36. The research noted that while the National Treasury has not been able to identify a controlling entity, GRAP 6 does not require the presence of a controlling entity that is a separate legal entity. It was noted that for the controlled entity to be identified, the appropriate branch of government that controls the entities required to be consolidated needs to be identified. The Board concluded that the executive branch at the national and provincial level is the controlled entity and that the controlled entities under its ownership control should be included in the national and provincial consolidations respectively. Recommendations were made to the National Treasury to compare the scope of the legislative consolidation with the consolidation prepared in accordance with GRAP 6. Such a comparison would assist in assessing which entities are controlled entities as defined in GRAP 6, the effect of the differences between the two consolidations and whether compliance with GRAP 6 is achieved.

Feedback from discussions

37. The purpose of the discussion was to assess the need for the guidance by the National Treasury and to follow up on the Board's recommendations relating to the PFMA consolidation. The latter was important to determine whether the PFMA consolidations can be prepared in accordance with GRAP 6 or the proposed guidance in this project.

38. It was confirmed that the proposed guidance will be useful for the national and provincial treasuries. It was established that the Minister of Finance has recently provided an exemption for the PFMA consolidations however it was unclear when the exemption will expire. The progress on the Board's recommendation could not be established, and a commitment was made by the Acting Accountant-General to share this with the Board when it is available.

39. The Secretariat explained that the National Treasury is likely to be a key user of the proposed guidance and asked views on the timing of the project. It was noted that there is a commitment internally to move the departments to accrual accounting however it is a matter of timing. It was observed that there are strong linkages between the Board's project and the departmental reform and continued support is imperative.

40. It was agreed that although the national and provincial treasuries will be the key users of the proposed guidance, there does not seem to be an immediate need for the guidance until the departments start applying Standards of GRAP. This is due to the fact that a whole of government consolidation and/or PFMA consolidation, which includes the departments, is not possible if the departments are not applying the Standards of GRAP. It was agreed that in the interim, the project will be flagged in the OAG's GRAP implementation plan.

41. An observation was made that the types of financial statements discussed seem to be purpose-driven and could be useful when entities are looking to borrow funds or issue bonds rather than providing their annual financial statements. It was shared that there are discussions at the Intergovernmental Relations unit to establish funding mechanisms for infrastructure projects. It was noted that while this initiative is still at discussion phase, there may be a need for information in the combined and/or carve-out financial statements when project finance is required.

(c) Feedback from the City of Cape Town

42. The purpose of the discussion was to ascertain whether municipalities prepare financial information such as combined and/or carve-out financial statements when raising funds for a specific project or business of the municipality.

43. It was noted that the annual financial statements are usually used to apply for funding.

44. It was noted that the municipality is required to prepare and submit returns and Regulatory Financial Reports or Regulatory Financial Statements to the National Energy Regulator of South Africa (NERSA) for its electricity business. These financial reports are prepared in accordance with the Regulatory Reporting Manual issued by NERSA which sets out the reporting procedures and requirements. The financial reports provide financial information that is different to that in the annual financial statements to ensure accounting and financial segregation (i.e. ring-fencing) of the regulated business of the entity. It is a regulatory requirement that the financial reports must be audited (i.e. an agreed upon procedures engagement).

45. From the discussions, it was shared that there is currently no guidance on the preparation of the information, however the Manual sets out the basis of preparation for the financial reports. For example, the accrual basis is applied, and the reports are prepared under the historical cost convention. The Manual also sets out the cost allocation and separation principles.

46. It was explained that the principles in the Standard of GRAP on *Segment Reporting* will not necessarily assist with the preparation of these financial reports because of the specific regulatory requirements.

47. It was noted that similar information may be required in future for the regulation of water services.

48. The Secretariat considers that while these regulatory-specific financial reports may not necessarily be carve-out financial statements as envisaged in this project, the project could consider establishing basic principles when entities are required to prepare regulatory type of information.

KEY ISSUES FOR CONSIDERATION

49. In light of the results from the initial research, the Secretariat considered it necessary for the Technical Committee to reconsider at this meeting the scope of the project (see issue #1) as well as its timing (see issue #2). The project brief also set out several key issues to be considered in the project which are grouped together and discussed below (see issue #3).

Issue 1: Scope of the project and proposed guidance

50. The project brief identified two specific areas that the guidance should cover – i.e. developing guidance to facilitate the preparation of whole of government financial statements as well as sectoral reports. Based on the results of the initial research, and discussions with stakeholders the Secretariat believes that the scope of the project broadly covers those areas for which guidance does not currently exist at a standards level (see diagram 1 of the reporting entity).

51. In particular, the project could address circumstances when financial statements are prepared for:

    (a) A portion of an entity, programme or identifiable area of activity. For the purposes of this paper, these financial statements are referred to as "carve-out financial statements". These could be prepared for sectoral reports and any other areas when segment reporting does not provide the information required by users. For example, when entities are applying for project finance and the information is not provided by segment reports.

    (b) Two or more portions of entities or separate entities that have no control relationship with each other are presented as a single entity. For the purposes of this paper, these financial statements are referred to as "combined financial statements". These could be prepared by the National Treasury for the whole of government consolidations, and the legislative consolidation of national and provincial government if control is not a factor.

ACTIONS REQUIRED
The Technical Committee is requested to COMFIRM the scope of the project based on the initial research undertaken.

Issue 2: Need for guidance and timing of the project

52. The Board believed that there is merit to undertake the project given the overwhelming support received to develop guidance. The Board concluded that the guidance would be of great value to users in holding entities accountable for specific activities even though the timing of the project was questioned by respondents in ED 138. The Board agreed that the work on the project was not urgent and could be delayed to 2019/20 as the departments were yet to move to accrual accounting.

53. The Secretariat notes that while there are few entities that may be impacted by the proposed guidance, the information that the combined and/or carve-out financial statements provide could be useful to the identified users. The Secretariat has identified that the national and provincial treasuries will be a key user of the guidance. The discussion with the OAG confirmed that while the guidance may be necessary, it is not needed urgently as the departments are yet to move to accrual accounting.

54. In addition, the Secretariat notes that while there are no specific regulatory requirements for debt-issuers for the preparation of combined and/or carve-out financial statements, should the need arise the proposed guidance would be useful in that regard.

55. For these reasons, the Secretariat seeks the direction of the Technical Committee about the timing of the project if the departments are still applying the Modified Cash Standard, and there is no urgent need for the guidance. The Secretariat is of the view that theoretically the work could be undertaken however the timing of the project should be considered with reference to the low urgency of the guidance as well as limited staff resources.

ACTIONS REQUIRED
The Technical Committee is requested to DEBATE the development of the project and its timing.

Issue 3: Key issues identified in the project brief

56. The Secretariat has analysed the issues and provided commentary on how they may be addressed when the guidance is developed.

Key issues	Secretariat's comments based on initial research
Purpose of combined financial statements	
(a) What are combined financial statements, and are they general purpose financial statements?	The Conceptual Framework defines a group reporting entity but does not explicitly state that the financial statements prepared by the group reporting entity are "combined financial statements". This is where our Conceptual Framework differs to that of the IASB. The project should consider whether to define or describe combined and/or carve-out financial statements.
(b) Who are the primary users of combined financial statements, and what are their information needs?	The project will consider whether the purpose for which the combined and/or carve-out financial statements are prepared could assist in identifying who the primary users are and their information needs. The Conceptual Framework sets out key characteristics of the reporting entity - the capacity to raise resources and/or deploy resources and existence of users (i.e. service recipients and resource providers) that need the information for accountability and decision making is important.
Boundaries of the reporting entity	
(c) What is the basis of preparation in the absence of control? (d) Whether or how to apply the concepts of the reporting entity or group reporting entity to identify when and in what circumstances entities may prepare combined financial statements?	The Conceptual Framework defines the reporting entity and group reporting entity. The reporting entity can be: a government, public sector organisation, programme or identifiable area of activity. The Conceptual Framework provides guidance on the boundary of the reporting entity based on the capacity to raise resources and/or deploy resources and existence of users (i.e. service recipients and resource providers) that need the information for accountability and decision making is important. The Conceptual Framework also makes it clear that the entities in a group reporting entity do not usually have control. The project should explore how the boundary will be determined when there is no common control and what other factors (based on consultations with stakeholders) exist that can be used to determine the boundary.

Establishing accounting requirements	
(e) What will be the accounting requirements for the preparation and presentation of combined financial statements? (f) Whether to establish principles to facilitate the aggregation of information, and elimination of inter-entity transactions? If so, what will they be, and to what extent can some of the principles in the Standard of GRAP dealing with consolidations be used?	The project should consider whether the combined and/or carve-out financial statements need to comply with all the requirements in the Standards of GRAP. The general principles of consolidation accounting may be considered to develop principles for preparing combined and/or carve-out financial statements as a basis. The project will consider whether this means that all assets, liabilities, revenue, expenses and net assets of the combining entities/parts will be aggregated, and inter-entity transactions eliminated. These principles should broadly cover: • How to select accounting policies – whether uniform accounting policies will be used and if not, how these will be selected for the reporting entity. • How to deal with different reporting periods. • How to allocate assets, revenues, expenses, taxes (if applicable), liabilities (centralised treasury function) especially where the reporting entity includes portions of entities. • How to treat related party transactions, subsequent events for the reporting entity. • How to deal with segment reporting?
Establishing presentation and disclosure requirements	
(g) Is there a specific presentation objective required to address the disclosures to be made by the reporting entity?	A presentation objective may need to be established. Broadly the disclosures required could include information about: • Fact that the financials are combined and/or carve-out financial statements. • Purpose of the combined and/or carve-out financial statements. • Selection of accounting policies. • Nature of the relationship between the combined reporting entity and the larger entity. • Criteria used in defining which components to include in the reporting entity.

	• Approach and methodology for all significant allocations. • Treatment of related party disclosures and segment reporting.
Adoption and application requirements	
(h) Whether the Standard of GRAP will be applied voluntarily?	The project will need to assess the circumstances when the Standard should or should not be applied. The use of the financial statements may determine whether the guidance is applied voluntarily or not. For example, where legislation requires entities to consolidate entities, but the basis of preparation is not control – it might that the proposed guidance is applied instead of GRAP 6 or GRAP 35 on *Consolidated Financial Statements*.
(i) Will there be transitional provisions for the guidance?	One of the practical issues identified in the research is that there are two approaches in practice on how IFRS 1 is adopted by the reporting entity when preparing combined financial statements. The project will need to consider these approaches further and if they are appropriate.
(j) What is the impact of the guidance on compliance with the Standards of GRAP when entities prepare combined financial statements?	As with other Standards of GRAP, the guidance will be authoritative if it is a Standard of GRAP. As such, entities will need to comply with all its requirements when preparing combined and/or carve-out financial statements. As the project develops, the Board may consider if a Standard of GRAP is appropriate given the nature of the guidance.
(k) What is the impact of the guidance when entities are required to prepare entity or consolidated financial statements by legislation?	Entities that are required to prepare financial statements in accordance with the requirements in the Standards, or legislation will continue to do so. The combined and/or carve-out financial statements are not intended to replace the stand-alone financial statements or consolidated financial statements that are required by legislation if based on control as defined in GRAP 6 or GRAP 35.

(l) Would there be any assurance implications when entities prepare combined financial statements?	Based on informal discussions with the Audit Research and Development (ARD) unit at the AGSA, the audit of combined and/or carve-out financial statements is technically not an issue. They will audit based on what the requirements are in the proposed guidance. One of the practical challenges is when the reporting entity is not a legal entity that is not covered by the Public Audit Act. Further discussions are planned with the ARD in September 2019.

ACTIONS REQUIRED

The Technical Committee is requested to CONSIDER the Secretariat's analysis in responding to the issues identified above.

NEXT STEPS

57. The next steps in accordance with the project brief is to develop the draft Standard. The timing of the next steps will be dependent on the Technical Committee's deliberations of the issues.

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