Should parent entity financial statements disappear?

Parent entity financial statements could disappear from most accounts published and issued to shareholders if recommendations contained in a recently released discussion paper become reality.

The discussion paper, prepared by academic Julie Cotter, recommends that the parent entity column disappear and be replaced by disclosures in the notes to the financial statements so the financial statements are easier to read.

Cotter's recommendations — released by the Australian Accounting Standards Board in the past fortnight for public comment — do no completely reject the usefulness of parent entity data, however.

The research underlying the final recommendations indicated that there were significant users of parent entity information that need to have access to certain types of information presently contained in the parent entity financial statements.

Bankers, for example, were among the 19 interviewees drawn from a sample of 47 different types of users of statements, and they told Cotter there were reasons they needed to have access to more detailed information.

'Bankers use parent entity financial reports often or very often and many would prefer to see the requirement for a full set of parent entity financial reports retained,' Cotter's paper states.

'However, some bankers along with several other of the financial report users interviewed would be happy with just abridged parent entity financial statements plus some note disclosures.'

Equity analysts, fund managers and other shareholders, the paper says, tend to use limited disclosures that relate to parent entity results.

This led Cotter to propose that there be a retention of the responsibility for entities to lodge parent company financial statements with the Australian Securities and Investments Commission (ASIC) so they were at least on public record and accessible to those requiring them. Exemptions to this requirement are those entities that would not have substantive operations, including treasury operations, and not be borrowing entities. They would also not be single guarantors for the debts of one or more subsidiaries.

Additional disclosures that would form a part of Cotter's new reporting regime would provide details of:

- whether audited parent entity reports have been lodged with ASIC and, if not, a statement indicating that each of the exception criteria outlined above are satisfied;

- parent entity shareholders' funds, including dividends and franking credits, if different from the consolidated amounts;
- how the group is structured, including which entities within the group conduct the major trading and treasury operations;
- in which the entities the group's borrowings and contingent liabilities reside;
- class orders, guarantees and indemnities in place, including which entities are party to the guarantee(s).

The AASB says it is interested in feedback from the market place on the proposals contained in the discussion paper in order to see whether there is support for the reform of the presentation of financial statements.

AASB chairman David Boymal is asking constituents to send any views on the recommendations by June 30 at the latest.

This article was supplied by Tom Ravlic. Tom Ravlic is a financial journalist who has spent the past seven years covering the accounting profession, accounting and audit standard setting and corporate governance. His work has appeared in various publications including *Business Review Weekly*, *Personal Investment* (now *Personal Investor*), *The Age*, *CFO Magazine*, the *Australian CPA*, the *Company Director Journal* and the newsletters of the internationally renowned Lafferty Group. In addition to his freelance commitment to a wide range of publications, Tom has recently accepted an appointment to be editor of *Chartac Accountancy News*, published by Melbourne-based publisher Crown Content.