

Relevance of Parent Entity Financial Reports

A paper commissioned by the Australian Accounting Standards Board

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Executive Summary

This research addresses the issue of the extent to which parent entity financial information is needed by users of general purpose financial reports (GPFs). It provides objective evidence aimed at assisting the Australian Accounting Standards Board (AASB) to determine whether it should recommend legislative changes in respect of the form, content and presentation of parent entity information. The broad research problem investigated in this paper is: For Australian entities that provide consolidated GPFs, what form, content and presentation of separate parent entity financial information is needed by GPF users? To address this issue, survey data were collected via both an internet questionnaire and personal interviews. The sample comprises users of GPFs from across a diverse range of financial report user groups.

The results indicate that many financial report users, predominantly those working in roles involving credit risk assessment, use information from the parent entity financial reports. However, the frequency of use and particular components of the financial reports used varies across financial report user groups. There is no particular sub-set of information that would satisfy the parent entity information needs of all GPF users. Therefore, there is limited potential to reduce parent entity reporting requirements to less than a full set of financial reports (financial statements and notes). However, an examination of financial report users' needs for parent entity financial reports to be audited, lodged with the Australian Securities and Investments Commission (ASIC) and published in the annual report, as well as their information needs in relation to particular types of parent entities, reveals some potential for a reduction in reporting requirements.

In particular, the reductions in parent entity reporting requirements that could be achieved without compromising the information needs of GPF users include:

- removal of the requirement for parent entity financial reports to be published in the annual report; and
- exemptions from the requirement to lodge audited general purpose parent entity financial reports with ASIC for parent entities that:
 - (a) do not conduct substantive operations, including treasury operations;
 - (b) are not borrowing entities;
 - (c) are not single guarantors for the debt of one or more subsidiaries¹.

Further, the research results indicate that a reduction in parent entity reporting requirements would need to be supplemented by additional disclosures in the annual report. These disclosures 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 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).

¹ When the parent is a *single* guarantor, recourse flows only from the parent to the guaranteed subsidiary.

1. Introduction and background

This research addresses the issue of the extent to which parent entity financial information is needed by users of GPFRs.² It provides objective evidence aimed at assisting the Australian Accounting Standards Board (AASB) to determine whether it should recommend legislative changes in respect of the form, content and presentation of parent entity information. It is costly for Australian reporting entities³ to provide a full parent entity financial report in addition to a consolidated financial report. Changes to the *Corporations Act 2001* (the ‘Act’) that have the effect of removing or reducing these reporting requirements would reduce these costs. However, it is important to first ensure that GPFR users continue to have access to information that is necessary for decision making and that reporting entities discharge their duty of accountability to stakeholders.

The presentation of the separate parent entity financial report with the consolidated report of the parent and its subsidiaries varies between countries. New Zealand, Japan, Germany and France all require provision of both parent entity and consolidated data in financial reports. In the United Kingdom the parent entity is required to provide its reports but there is an ‘optional exemption’ in legislation from presenting a profit and loss account (note disclosure is required if the optional exemption is exercised). The United States does not require parent entity data to be presented for the majority of companies, and Canada expressly prohibits it. The remainder of section one overviews reporting practices and legislative frameworks for Australia and other International Accounting Standards Board (IASB) liaison standard-setting countries.

² AASB 1024 *Consolidated Accounts* defines ‘parent entity’ to mean an entity which controls another entity, where ‘control’ means the capacity of an entity to dominate decision-making, directly or indirectly, in relation to the financial and operating policies of another entity so as to enable that other entity to operate with it in pursuing the objectives of the controlling entity. Further, for the purposes of this paper, ‘parent entity financial report’ means the financial statements and notes to the financial statements prepared for the parent entity of a group, as a single entity. SAC1 ‘Definition of the Reporting Entity’ defines ‘general purpose financial report’ to mean a financial report intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs.’

³ SAC 1 defines ‘reporting entity’ to mean an entity (including an economic entity) in respect of which it is reasonable to expect the existence of users dependent on general purpose financial reports for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources.’ Further, AASB 1024 states that it ‘...includes but is not limited to an economic entity in which the parent entity is one of the following:

- (a) A listed corporation;
- (b) A borrowing corporation’ and
- (c) A company which is not a subsidiary of a holding company incorporated in Australia and which is a subsidiary of a foreign company where that foreign company has its securities listed for quotation on a stock market or those securities are traded on a stock market.’

1.1 Australian reporting practice and legislative framework

1.1.1 Current requirements

Section 292 of the Act provides that a financial report and a directors' report must be prepared for each financial year by:

- (a) all disclosing entities;
- (b) all public companies;
- (c) all large proprietary companies; and
- (d) all registered schemes.

Section 295(1) provides that the financial report for a financial year consist of:

- (a) the financial statements for the year;
- (b) the notes to the financial statements; and
- (c) the directors' declaration about the statements and notes.

Section 295(2) provides that the financial statements comprise:

- (a) a profit and loss statement for the year;
- (b) a balance sheet as at the end of the year;
- (c) a statement of cash flows for the year; and
- (d) if required by the accounting standards – a consolidated profit and loss statement, balance sheet and statement of cash flows.

AASB 1024 *Consolidated Accounts* applies to each company that is a parent entity in an economic entity which is a reporting entity and also to a parent entity that prepares a financial report which it purports to be a GPFR for an economic entity that is not a reporting entity.⁴

As a consequence of the above requirements, all parent entities that are required to prepare a financial report must present not only GPFRs for the economic entity (group), but also for the parent entity (as a single entity).⁵

⁴ AASB 1024 defines 'economic entity' to mean a group of entities comprising the parent entity and each of its subsidiaries, where 'subsidiary' means an entity which is controlled by a parent entity.

⁵ There are two 'unusual' situations worth mentioning. These are (a) stapled securities, comprising a trust and a company, and (b) dual listed companies (eg BHP Billiton Ltd, which is listed in Australia and BHP Billiton PLC which is listed in the United Kingdom). For stapled securities, annual parent entity financial statements are required for both the trust and the company, along with a combined financial report. The Act only requires dual

1.1.2 History of regulatory requirements in Australia

Consolidated financial statements have only been mandatory for Australian reporting entities since the introduction of AASB 1024 in 1991.⁶ This followed the issue of the Australian Accounting Standard AAS 24 ‘Consolidated Financial Statements’ in 1990. Prior to that, professional pronouncements in the form of (Institute of Chartered Accountants in Australia) Recommendations on Accounting Principles, and Australian Uniform Company Laws allowed three options for disclosing supplementary group accounts (see Walker and Mack, 1998 pp. 56 to 58):

- separate statements of subsidiaries;
- a consolidated statement encompassing subsidiaries; or
- the preparation of consolidated statements encompassing parent and subsidiaries.

While a 1973 stock exchange listing rule formally prescribed the consolidated form for published accounts, these listing rules had narrower coverage and were of lesser authority than statutory requirements (Walker and Mack, 1998).

In 1985, the National Companies and Securities Commission (NCSC) introduced Companies Code regulations pertaining to class order guarantees. Section 273(5) stipulated that relief from complying with the Code in relation to its accounts and audit preparation requirements was:

available between a holding company and its wholly-owned subsidiary, provided that... the holding company prepared group accounts and its own accounts in accordance with the Code and have executed a standard guarantee covenant with its subsidiary.

In essence, these regulations reduced reporting requirements to separate parent and consolidated financial statements for closed groups⁷ of companies choosing to ‘severally, unconditionally and irrevocably’ guarantee each other’s debts (see Dean, Luckett and Houghton, 1993, p. 207).

listed companies to provide a parent entity report for the Australian holding company, with no combined report being mandated. However, ASIC Practice Note 71 (paragraph 13) states that ASIC regards the disclosure of a combined report as necessary to satisfy the ‘true and fair view’ requirement of the Act (relief may be granted in certain instances).

⁶ This accounting standard, in its current form, came into effect for financial years ending on or after 30 June 1992.

⁷ In this context, a closed group means the parent entity and its 100% owned subsidiaries.

The Australian Securities Commission extended the scope of these Class Orders in 1991 by requiring all companies party to a Deed to enter into a Deed of Cross Guarantee which effectively renders each company in the group liable to the creditors of every other company within the group (see Dean, Luckett and Houghton, 1993, p. 208). That is, in addition to the parent guaranteeing the debts of wholly owned subsidiaries; each subsidiary would now guarantee the debts of the parent and each other subsidiary within the closed group.

1.1.3 Separate legal entity concept

While a parent entity and its subsidiaries comprise an economic entity, this same group is not considered to be a legal entity under the Act.⁸ Each individual company within the group, including the parent entity, is a separate legal entity. An alternative to the separate entity approach is a single enterprise approach that recognises and attaches considerable legal significance to economic integration within a corporate group. While Australian corporate law does not generally apply this single enterprise approach, the Act contains various provisions that override the strict application of the separate entity approach (Companies and Securities Advisory Committee (CASAC), 2000). These include the consolidation of corporate group accounts and the aggregation of the voting power of all group companies in the takeover context.

Class Order 98/1418 ‘Wholly-Owned Entities’ grants accounting and auditing relief to wholly-owned subsidiaries so long as the parent and the subsidiaries enter into a Deed of Cross Guarantee of each other’s debts, and the parent company prepares a consolidated financial report (CCH Australia Ltd, 2003). The relief granted to the subsidiary relates to the preparation of a financial report and directors’ report, audit of the financial report, as well as requirements to send these reports to members, to lay the reports before the annual general meeting, and to lodge the reports with the Australian Securities and Investments Commission (ASIC). In effect, this Class Order enables a parent and its wholly-owned subsidiaries to operate as if they were one legal entity.

⁸ The corporate group concept is recognised in other commercial legislature including the Trade Practices Act and Australian Tax Law (see Company Securities and Advisory Committee, 2000).

1.1.4 Relief from parent entity reporting requirements

Very little relief from the requirements of the various accounting standards is granted in respect of the separate financial report of a parent entity. There are some exceptions, for example, AASB 1005 *Segment Reporting* does not require, where consolidated reports are presented with the parent entity's report, disclosure of parent entity segment information. AASB 1017 *Related Party Disclosures* permits certain less extensive reporting of related party transactions in the separate accounts of a parent compared to those required in the consolidated financial report. AASB 1027 *Earnings per Share* only applies to the consolidated financial report where it is presented with the parent entity report.

In contrast to the above situation, Section 299(2) of the Act provides in respect of the directors' report that the entity reported on in the directors' report is the consolidated entity (if consolidated financial reports are required). A separate parent entity directors' report is not required.

1.2 International practices and legislative frameworks

The Australian parent entity reporting practice and legislative framework described above differs from that in several other countries. To obtain background information about international practices, the current parent entity reporting practices for publicly listed entities in each of the IASB's liaison standard-setting countries were surveyed. An e-mail questionnaire seeking information about current reporting practices and the regulations governing them was sent to the standard setting body in each country. Answers received were confirmed by secondary research.⁹ The results of this survey are included in appendix A and are briefly overviewed in this section.

Canada. Publicly-listed companies are not required to present parent entity financial reports; indeed, consolidation has become the only acceptable form of reporting. Individual financial reports (non-consolidated reports) may not be issued to the general public.

⁹ The key reference used is Ordelheide, D. and KPMG (2001), which provides a high level of detail on the accounting framework and requirements in various jurisdictions. Stock exchange reporting requirements in the jurisdictions surveyed were also examined.

France. Publicly-listed companies must publish in the official government gazette both parent entity financial statements and consolidated financial statements, and must issue such reports to shareholders. With respect to interim reports, listed companies normally only publish consolidated data. There are several key differences in the reporting requirements for consolidated and parent entities. These relate to finance leases, asset revaluations, inventory, interest expense, and foreign currency gains and losses.

Germany. Each corporation is required to prepare and publish in the Federal Gazette both consolidated and individual parent company reports, each consisting of financial statements and a management report. Cash flow statements, segment reports, and statements of changes in equity are not required for parent entity reports.

While German corporate law treats each company within a group as a separate legal entity, it expressly permits various categories of corporate groups to operate as a single enterprise. Single enterprise principles on corporate governance and liability apply on the assumptions that ‘the basic decisions and conduct of management are oriented towards a common corporate group purpose and liability should be linked to the source of decision-making power in the group’ (CASAC, 2000, p. 24).

Japan. Preparation and publication of parent entity and consolidated financial reports is required. Semi-annual financial reports are also required for both the consolidated and parent entity. Where companies file both consolidated and parent entity information in their financial reports, they can omit some notes in parent entity reports, which have already been disclosed in consolidated reports.

New Zealand. Listed companies must present both parent and consolidated group financial reports.

United Kingdom. While the United Kingdom reporting framework requires preparation and presentation of parent entity financial information, there is an optional exemption from presenting a profit and loss statement. Footnote disclosure of the parent entity profit or loss is required if the optional exemption is exercised. Specific application of accounting rules may vary between the parent and consolidated reports, however these must be explained and disclosed in the notes.

United States. There is no requirement to present parent entity financial reports in addition to the consolidated reports. However, when certain restrictions exist on the ability of subsidiary companies to transfer funds to the parent through intercompany loans, advances or cash dividends, certain additional disclosures in notes to consolidated financial statements and the presentation of condensed financial information in a schedule to the financial statements are required. This schedule of condensed financial information encompasses financial position, cash flows and results of operations.

Further, Accounting Research Bulletin No. 51 states that:

In some cases parent-company statements may be needed, in addition to consolidated statements, to indicate adequately the position of bondholders and other creditors or preferred stockholders of the parent. Consolidated statements, in which one column is used for the parent company and other columns for particular subsidiaries or groups of subsidiaries often are an effective means of presenting pertinent information.

CASAC (2000, p. 28) contends that ‘US commercial laws affecting corporate groups increasingly employ single enterprise principles.’ These relate to a duty of fairness to minority shareholders, a fiduciary duty to creditors that arises where the controlled company is, or is close to being insolvent, and bankruptcy legislation.

1.3 Framework for the remainder of the paper

The remainder of this paper is organised as follows. The next section articulates the research problem to be investigated and the scope of the research. Section 3 overviews prior research and theory that are relevant to the research problem. The research methodology is described in section 4, followed by the results in section 5. This is followed by related discussion and conclusions in section 6. Finally, recommendations are made in section 7.

2. Research problem and scope

2.1 Research Problem

The broad research problem investigated in this paper is: For Australian entities that provide consolidated GPFRs, what form, content and presentation of separate parent entity financial information is needed by GPFR users? The research is exploratory, and the answer may fall anywhere between the extremes of ‘parent entity financial information is not needed’ and ‘a full set of audited parent entity financial reports needs to be prepared and presented in the annual report’.

The ‘information needs’ rather than ‘information desires’ of financial report users are considered. In particular, previous access to parent entity financial reports is irrelevant. Furthermore, it is the users reliant on general purpose financial reports rather than those who are in a position to demand special purpose financial reports whose needs are assessed. To ensure a thorough investigation of the research problem, it is necessary to clarify (a) who are GPFR users, and (b) what are their information needs?

2.1.1 General purpose financial report users

SAC 2 *Objective of General Purpose Financial Reporting* (paragraph 7) defines users of GPFRs to mean users who are unable to command the preparation of reports tailored to their particular information needs. These users rely on the information communicated to them by the reporting entity. In SAC 2 (paragraphs 16 to 19), the following three categories of user groups are identified as the primary users of GPFRs, and those whose common information needs should dictate the type of information to be disclosed by such reports:

Resource providers. Providers of resources include those who may be compensated either directly or indirectly for the resources they provide. The former category includes employees, lenders, creditors, suppliers, investors and contributors.

Recipients of goods and services. Recipients of goods and services are those who consume or otherwise benefit from the goods and services provided by the reporting entity. This category comprises customers and beneficiaries.

Parties performing a review or oversight function. Certain parties, including parliaments, governments, regulatory agencies, analysts, labour unions, employer groups, media and special interest community groups, perform oversight or review services on behalf of the community. Members of this group tend to have indirect or derived interests in GPFRs since they advise or represent those who have direct interests.

2.1.2 Information needs

Paragraphs 21 to 25 of SAC 2 articulate the purposes for which these user groups require financial information:

Resource providers want to know whether the reporting entity is:

- (a) achieving the objectives which formed the reason for the provision of resources in the past; and
- (b) operating economically and efficiently and using resources as prescribed.

Further, investors and other resource providers want to know whether the entity is operating profitably and generating favourable cash flows in the process, since their decisions relate to amounts, timing and uncertainties of expected cash flows.

Recipients of goods and services (paragraph 22 of SAC 2) may want to assess the ability of the reporting entity to continue to provide goods and services in the future, the likely level at which the goods and services will be provided and the likely cost of the goods and services. The focus of this user group is on the ability of the entity to generate favourable cash flows, since only by obtaining sufficient cash to pay for the resources it uses and to meet its other obligations will the entity be able to continue to provide the goods and services in the future.

Parties performing review or oversight services of interest to members of the community want to know whether the reporting entity has been operating in the interests of such members. They want to know whether the entity is achieving its objectives and is operating economically and efficiently in carrying out its operations.

GPFR users' information needs can be viewed in terms of the relevance of the information to these users. According to SAC 3 *Qualitative Characteristics of Financial Information* (paragraph 5), relevance is:

...that quality of financial information which exists when that information influences decisions by users about the allocation of scarce resources by:

- (a) helping them form predictions about the outcomes of past, present or future events; and/or
- (b) confirming or correcting their past evaluations;

and which enables users to assess the rendering of accountability by preparers.

SAC 2 defines ‘accountability’ to mean the responsibility to provide information to enable users to make informed judgements about the performance, financial position, financing and investing, and compliance of the reporting entity. These definitions, along with definitions of ‘reporting entity’ and ‘general purpose financial reports’, suggest general purpose financial report users’ information needs are related to accountability and making and evaluating decisions about the allocation of resources. Accordingly, these are the criteria for determining mandatory reporting requirements, including those for parent entity financial statements.

2.2 Research Questions

This study surveys the information needs of a diverse selection of GPFR users. To address the research problem, three specific research questions are investigated:

- a) Is there a perceived need for parent entity financial reports or components of them?
- b) If so, which components do the perceived information needs relate to?¹⁰
- c) Is each of these information needs real, or is it merely an ‘information desire’?

2.3 Assumptions and scope of the research

This research is based upon the following assumptions:

- First, that the GPFR users surveyed are representative of all GPFR users. Given the diverse group of financial report users surveyed, this assumption appears plausible.
- Second, that changes caused by the adoption of International Accounting Standards will not change GPFR users information needs. This assumption appears plausible.

¹⁰ These components include the Statement of Financial Performance, the Statement of Financial Position, the Statement of Cash Flows and each of the notes that contain separate parent entity information.

The study is limited to entities that provide consolidated GPFRs. That is, it is not concerned with the use of parent entity financial reports for entities that are not required to provide consolidated GPFRs. Further, it is not concerned with separate subsidiary financial reports except to the extent that a subsidiary is also a parent entity.

3. Prior research and theory

This section provides an overview of prior research and theory that is relevant to the research problem articulated above and examines the likely costs and benefits associated with parent entity reporting. The insights gained from this overview, along with the issues addressed in section 2, are used to guide the research methodology outlined in section 4.

3.1 Inadequacy of parent entity financial statements

The separate legal personality of each group company (corporate autonomy) means that debts incurred by each company are debts of that company, not of the corporate group collectively (CASAC, 2000). Further, it is the legal entity, rather than the economic entity, that is responsible for paying dividends to shareholders and wages to employees, and that creditors are exposed to in the absence of guarantees.

Notwithstanding the corporate autonomy of parent entities, Jubb, Haswell and Langfield-Smith (1999, pp. 412-3) contend that parent entity reports are inadequate for three reasons:

1. Many of the resources that the parent managers are able to deploy are located in the subsidiaries and are not revealed.
2. The parent's ability to pay its debts and service its equity capital depend upon the profits and cash flows of subsidiaries, but these are not revealed.
3. Dividends from subsidiaries are not good indicators of earnings.

On the basis of these inadequacies, they conclude that parent entity reports do not allow shareholders or creditors to make informed judgments on the risks involved in parent entity investment and on the performance of its management. Thus, consolidated reports are superior to parent entity reports in terms of satisfying financial report users' needs. The question that remains is: Given that consolidated reports are required to be prepared by Australian reporting entities, do parent entity reports provide additional, relevant information to the users of GPFRs?

It is not always the parent entity that is the individual entity within a group that borrows, employs staff, incurs liabilities, holds assets, or conducts the trading operations of a group. Indeed, the parent entity is very often nothing more than a 'shell' or holding company, with the majority of assets, liabilities and operations occurring in one or more large operating subsidiaries. In this case, the financial report of an operating subsidiary is potentially more relevant than that of the parent entity. For groups with a Deed of Cross Guarantee, these subsidiary financial reports are not required to be prepared, audited, sent to members or lodged with ASIC, however the parent entity financial reports are. The usefulness of parent entity financial statements for companies structured in this way is questionable.

3.2 Costs and benefits of providing parent entity financial statements

While it is difficult to quantify the costs and benefits associated with preparing parent entity financial reports, identifying what they are will provide some insights into whether the costs outweigh the benefits. In relation to separate subsidiary financial reports when a Deed of Cross Guarantee is in place, it appears that the costs of preparing and auditing these extra reports is greater than the benefits related to the information needs of financial report users. Indeed, Bosch (1990) made the following statement about the 1985 NCSC ruling that, where a holding company is prepared to guarantee the debts of a wholly-owned subsidiary, no separate subsidiary company financial report need to be audited or published:

Very large numbers of companies have taken advantage of this decision and great savings have been made. Subsequently we extended the arrangement to cover subsidiaries of Australian companies operating in foreign countries. Again great cost savings resulted. In neither case has the Commission been made aware of any disadvantage that has been suffered by anyone as a result of our decisions.

There are at least two theories that can be used to analyse the benefits of supplying separate parent entity financial reports. These are the information theory perspective (see Pendlebury, 1980) and the fineness theorem of information economics (see Marshak and Radner, 1971). From each of these two perspectives, it can be concluded that separate parent entity and subsidiary financial reports are a valuable supplement to consolidated financial statements. For example, it could be argued that assessing the capacity of a parent entity to produce

profits in the future can be better achieved if a full parent entity financial report as well as a consolidated financial report is available. These theories work on the basis that more detailed information is better than less. However, they do not consider the costs of supplying the extra information, nor do they consider whether the more detailed information is demanded.

The costs associated with preparing and publishing separate parent entity financial reports include administrative and printing costs associated with putting the financial reports together, and any additional audit costs. There are two types of preparation and audit costs. The first relates to preparing and auditing the stand alone parent entity financial reports. The second relates to incorporating them into the final set of consolidated financial reports that will be published in the annual report. For example, discussions with an auditor indicate that a considerable amount of the total effort of an audit is spent in checking these final financial reports.

Another key issue is the additional clutter caused by including parent entity financial information in the consolidated annual report. This additional information may detract from their readability and ease of use. The elimination of parent entity financial information would allow users who are more focused on consolidated information to be able to review annual reports without the clutter inherent in multi-column financial reports.

It may also be the case that there are implicit costs associated with publishing parent entity information to the extent that having to make these separate financial reports publicly available influences management behaviour. For example, the prospect of disclosing losses in the parent entity that would be eliminated upon consolidation could cause an entity to structure transactions in such a way as to avoid showing a loss for the parent. This would be inefficient if, for example, there was a tax saving associated with the loss.

Overall, it appears that a considerable portion of the explicit and implicit costs associated with parent entity financial reports is related to including this information in published financial reports, rather than preparing and auditing stand-alone parent entity financial reports per se.

3.3 Information needs of financial statement users

The information needs of bankers and other creditors are expected to depend at least partly on whether the lending is to an individual entity under a separate and autonomous arrangement or to a group. If there is a Deed of Cross Guarantee, the lending is effectively to a 'closed' corporate group to which the deed relates. However, it should be noted that the 'closed' groups to which these deeds pertain generally comprise a parent and its wholly-owned subsidiaries. Where there are partly-owned subsidiaries, the consolidated reports may not adequately meet the information needs of creditors.

Insights about whether the costs of preparing separate parent entity financial reports are likely to exceed the benefits can be gained from prior research into the usefulness of these reports to lenders and creditors. Francis (1986) investigates the issue of whether parent entity financial reports convey useful debt information that is lost in consolidated financial reports in the US setting. Francis concludes that parent entity financial statements are a useful addition to consolidated accounts when parent debt guarantees do not exist or when debt covenants are defined at the separate entity level.

In line with the definition of 'information needs' outlined in section 2.1.2 above, the uses for parent entity reports identified by Francis relate to both a decision making and accountability orientation. First, these separate reports aid in determining the market price of debt where there are no guarantees of subsidiary debt. That is, when there is a clear demarcation between parent and subsidiary net assets. Default risk on parent debt can be better evaluated by analysing separate parent entity financial reports. On the other hand, consolidated reports are more useful in the presence of subsidiary debt guarantees, since default risk on the parent entity's own debt is higher due to a contingent claim on parent assets. Second, parent entity reports provide useful feedback for monitoring a firm's compliance with outstanding debt covenants that are defined at the parent entity level.

As part of his analysis, Francis examines differences in debt ratios derived from parent entity and consolidated reports for a small sample of US companies providing both sets of reports in 1981.¹¹ He finds significant differences in debt levels and debt-related ratios between the

¹¹ Accounting Series Release (ASR) No. 302 dropped the formal requirement for parent entity financial reports for years ended after March 1982. Under pre-ASR No. 302 rules, separate parent entity reports were required in limited circumstances.

parent entity and consolidated reports. Similarly, Beranek and Clayton (1985) conclude that assessments of risk for parent entity debt using consolidated financial reports tend to overestimate parent entity financial risk. Further, while Francis is unable to determine whether covenants are written in terms of consolidated and/or parent entity reports, he shows that less than 20 percent of his sample firms have debt guarantees. This result appears to indicate that separate parent entity reports, or components of them, would be a useful addition to consolidated financial reports for the majority of US firms.

There is a dearth of theory or evidence indicating that shareholders demand separate parent entity information in addition to consolidated financial information. Indeed, the Australian Stock Exchange listing rules require only consolidated financial information to be submitted; thus indicating that parent entity financial reports are not demanded by investors. However, it may be the case that certain information about parent entity shareholders' equity is useful to shareholders and/or other financial report users. For example, the distributable reserves of a parent entity allow a straightforward determination of the parent's ability to pay dividends.

4. Research methodology

The objective of the research is to answer the three research questions articulated in section 2.2, with an intended bias towards determining whether one or more GPFER user groups would be disadvantaged by a reduction in parent entity reporting requirements. Survey data were collected via both an internet questionnaire and personal interviews. Both were pilot tested on one bank and one rating agency.

The target sample comprises regular users of GPFERs from across a diverse range of financial report user groups. Access to these individuals was gained by contacting senior executives from organisations expected to employ such individuals. To increase the likelihood of gaining access to the type of individuals included in the target sample, many of the senior executives approached were people who had previous contact with the AASB.

These senior executives (from 17 organisations) were contacted by telephone and asked to participate by (a) identifying up to 20 individuals within their organisation who met our target sample requirements, and (b) encouraging these individuals to participate in the internet

questionnaire and personal interviews. A link to the internet questionnaire was distributed by email to these individuals. The Chairman also made the AASB consultative group (representatives from 37 industry and government bodies) aware of the survey. The total number of organisations responding to the survey was 22, with a minority of individual responses (12) not specifying an organisation. For most of the participating organisations, only one or two individuals submitted responses to the internet questionnaire. However, there were 13 responses from one stockbroking firm and 8, 5 and 4 individual respondents respectively from three of the participating banks.

The sample of individuals responding to the internet questionnaire comprises 64 regular users of GPFs employed by 22 organisations spread across a diverse range of financial report user groups as well as 6 individual shareholders. The composition of this sample by financial report user group is:

	Number of Organisations Responding*	Number of Individual Responses
Banker	6	24
Debt Rating Analyst	2	3
Equity Analyst/Stockbroker	7	24
Superannuation Fund Manager	4	4
Trade Creditor	5	5
Individual Shareholder	-	6
Other	2	4
		<hr/> 70

* This column sums to more than the total number of organisations responding (22) due to overlap between the categories. It is only informative as to the number of organisations responding in a particular user group category.

There is considerable variation in the positions held by the 24 bankers responding to the questionnaire. These include Manager Wholesale Credit Policy and Support Tools, Executive Manager Risk Management, Division Director Credit, Chief Credit Officer, and Executive Manager Policy and Strategy Group Risk Management. This degree of variation helps to ensure that the information needs of bankers working in different roles are examined. There is also some variation in the positions held by respondents classified as equity analysts or stockbrokers. These include Research Analyst and Head of Research, Energy Analyst, Senior Analyst and Equity Research Analyst.

The questionnaire included a space for respondents to indicate whether they would be available for a follow-up interview. While the majority of interviewees were chosen from those answering ‘yes’, in the interest of achieving a diverse set of interviewees, several of the respondents initially answering ‘no’ were contacted and asked whether they would agree to be interviewed. The interview sample was selected with a view to including a majority of individuals indicating in their questionnaire responses that they use parent entity financial reports when conducting a financial analysis. Care was taken to ensure that at least two individuals from each financial report user group were interviewed. However, the final sample for interviews is weighted towards bankers due to questionnaire results indicating that this is a major parent entity financial report user group. A total of 19 interviews were conducted with individuals from 12 organisations covering a broad range of financial report user groups:¹²

	Number of Organisations	Number of Interviewees
Banker	4	8
Debt Rating Analyst	2	2
Equity Analyst/Stockbroker	2	3
Superannuation Fund Manager	2	2
Trade Creditor	2	2
Individual Shareholder	-	2
	12	19

Face-to-face interviews were conducted with 17 of the interviewees, with the remaining 2 being conducted by telephone. All interviews were recorded. They took the form of semi-structured personal interviews, with the interviewer following a standard set of questions, and then following up with individually tailored questions to clarify answers given or probe reasoning. Transcripts of the interview tapes and questionnaire responses form the basis of the analysis presented in the next section.

¹² Two of the interviewees invited a colleague to assist with the interview. These colleagues’ responses were included in the analysis along with those of the interviewee, however they were not counted as separate interviewees.

5. Results

This section contains the results of both the internet questionnaire and the personal interviews. It commences with an investigation of (a) the perceived need for parent entity financial reports, and (b) which components of parent entity reports are perceived to be most relevant. Potential for reductions in parent entity reporting requirements are then examined by determining the minimum set of requirements that would satisfy the information needs of a diverse set of financial report users.

5.1 Perceived need for parent entity financial reports

The perceived need for parent entity financial reports is assessed in terms of:

- (a) the frequency with which these financial reports are used by questionnaire respondents; and
- (b) their preferred level of parent entity financial reporting (for example, abridged parent entity financial statements).

5.1.1 Frequency of use

A clear pattern emerges from the cross-tabulation of questionnaire responses shown in table 1. That is, while bankers tend to use parent entity financial reports often or very often, those financial report users concerned with equity rather than credit analysis (equity analysts/stockbrokers, superannuation fund managers, and individual shareholders) rarely or never use them. Overall, 28 of the 70 individuals responding to the questionnaire indicate that they ‘never’ use parent entity financial reports as part of their analysis. The remaining 42 respondents (60%) use at least some components of parent entity financial reports with their frequency of use varying between ‘rarely’ and ‘very often’.

Table 1: Questionnaire responses to the question: ‘When analysing the financial statements of a corporate group that provides a consolidated financial report, have you used the separate parent entity financial reports or components of them as part of your analysis?’ for the sample of 70 individuals responding.

Role	Never	Rarely	Sometimes	Often	Very Often	Total
Banker	2	2	3	7	10	24
Debt Rating Analyst	-	1	-	2	-	3
Equity Analyst / Stockbroker	14	6	3	1	-	24
Superannuation Fund Manager	3	1	-	-	-	4
Trade Creditor	2	-	2	1	-	5
Individual Shareholder	4	2	-	-	-	6
Other	3	-	-	-	1	4
Total	28	12	8	11	11	70

Of the 19 respondents chosen for follow-up interviews, 6 indicated on their questionnaire response that they ‘never’ use parent entity financial reports. However, the interviews revealed that two of these interviewees do in fact use some elements of parent entity financial reports. Three of the four interviewees confirming that they never use the parent entity columns when analysing annual reports belong to the equity analyst/stockbroker and fund manager categories. Those interviewees confirming that they never use parent entity financial reports stated that they focus on the consolidated numbers when using published annual reports and completely ignore the parent entity information.

5.1.2 Preferred level of parent entity reporting

The remainder of the discussion pertaining to the questionnaire responses is based on those 42 respondents indicating that they use parent entity financial reports. Table 2 shows that 17 of these perceive the most appropriate level of parent entity reporting in Australia to be a full set of parent entity financial statements, and notes. Notably, the majority of respondents in this category are bankers. Another 22 respondents from across a range of financial report user groups indicated that either limited disclosures or abridged parent entity financial statements would be most appropriate. Only three respondents concluded that it would be preferable to have no parent entity reporting requirements. However, it is expected that the

majority of the 28 questionnaire respondents indicating that they never use parent entity information would also choose this option.

Table 2: Questionnaire responses to the question: ‘What do you perceive to be the most appropriate level of parent entity reporting for Australia?’ for the sub-sample of 42 respondents indicating that they use parent entity financial reports*

Role	Full set*	None*	Disclosures*	Abridged*	Total
Banker	13	-	3	6	22
Debt Rating Analyst	1	-	1	1	3
Equity Analyst / Stockbroker	2	3	5	-	10
Superannuation Fund Manager	-	-	-	1	1
Trade Creditor	1	-	-	2	3
Individual Shareholder	-	-	2	-	2
Other	-	-	-	1	1
Total	17	3	11	11	42

* The options were:

Full set - A full set of parent entity financial statements, and notes.

None - No parent entity reporting requirements.

Disclosures - Limited parent entity disclosures only.

Abridged - Abridged parent entity financial statements only.

Of the 19 respondents chosen for follow-up interviews, 5 (all bankers) indicated on their questionnaire response that their preferred level of parent entity reporting is to retain requirements for a full set of parent entity financial reports. The remainder of the interviewees indicating that they use parent entity information were approximately evenly distributed across the categories wanting abridged financial statements and limited disclosures. However, further questioning during the interviews revealed that another option, which had not been included in the questionnaire, was most attractive to many of the interviewees. This option comprised a combination of abridged financial statements and limited note disclosures. Indeed, this is the preferred level of parent entity reporting for the majority of interviewees who had indicated in their questionnaire responses that they wanted either abridged financial statements or limited disclosures. Most of these interviewees are employed by banks, rating agencies or trade creditors in roles involving credit risk assessment. Two of the interviewees, a security analyst and an individual shareholder confirmed that their preference is for limited note disclosures only.

5.1.3 Conclusions about the perceived need for parent entity financial reports

Overall, these results indicate that many financial statement users, predominantly those working in roles involving credit risk assessment, use information from parent entity financial reports. Indeed, 60 percent of individuals responding to the questionnaire indicated that they use at least some components of parent entity financial reports. Follow-up interviews reveal that this estimate is conservative, since some of the respondents previously indicating that they never use parent entity information stated that they do in fact use some components of parent entity financial reports.

Frequency of use is highly correlated with the type of financial report user. 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. However, some bankers along with several other of the financial statement users interviewed would be happy with just abridged parent entity financial statements plus some note disclosures. In contrast, the preferred level of parent entity reporting for equity analysts, fund managers and other shareholders, if any, tends to be limited parent entity disclosures only.

5.2 Most relevant components of parent entity reports

This section investigates which components of parent entity reports are considered to be most useful. Of the 42 questionnaire respondents indicating that they use parent entity financial reports, 12 (mainly bankers) stated that they use the full set of the financial statements and notes. The comments of some of these respondents suggest a somewhat cursory use of the reports. For example ‘Look for hidden issues: hidden leverage, assets, income smoothing’. However, the comments of other respondents imply a more comprehensive analysis. For example, ‘All, we examine them exhaustively as we often have a relationship to the parent entity but not to the whole group.’ and:

All of them. When a credit assessment is being undertaken on a parent entity, I believe it is appropriate to understand which assets, liabilities, revenues, expenses, cash flows etc are actually in the entity we are taking exposure on and which are in subsidiary entities.

The remaining 30 of these respondents indicated that they use particular components of financial reports rather than the full set. Some of the respondents indicated that they focus on

two or more of the primary financial reports, sometimes in conjunction with the relevant notes. However, there was little agreement between respondents in terms of which components of the parent entity financial reports are more useful than others. For example, while several respondents indicated that they rely primarily on the balance sheet and profit and loss statement, others indicated that they also use the statement of cash flows. Further, others identified particular *sets* of notes as being a necessary addition to the information contained in the financial statements. For example, a Division Director of a large investment bank said:

Primarily, I use the Balance Sheet and the notes that illuminate the Balance Sheet items.... However, the Income Statements and Cash Flow Statements are also useful in determining such things as dividend payments.

In addition, various respondents separately identified the following notes as being relevant:

- revenue/expense notes
- interest bearing liabilities and other borrowings
- contingent liabilities
- hedge position
- dividends
- management/Head Office expenses
- inter-company loans
- finance lease commitments
- related party transactions
- minorities disclosure
- provisions
- retained earnings
- net tangible assets.

Of these, contingencies, inter-company loans, and details of borrowings were each specified by at least three of the respondents. However, there is very little overall agreement concerning the most relevant components of parent entity financial reports. The conclusion from this analysis is that a full set of parent entity reports is required to satisfy the *perceived* information needs of the group of financial report users surveyed. The following section reports results of investigations designed to determine whether these perceived information needs are real or merely information desires.

5.3 Potential for reductions in parent entity reporting requirements

This section examines issues pertaining to whether it is necessary for a full set of audited parent entity financial reports to be included in the published reports of Australian reporting entities. The interview questions were designed to probe this issue with a view to determining a minimum set of requirements that would satisfy the information needs of a diverse set of financial report users. In particular, the interviewees were asked questions pertaining to:

- the minimum set of parent entity information required to satisfy their information needs;
- the importance of having the parent entity information audited, lodged with ASIC, and published in the annual report; and
- whether parent entity financial reports are only needed for particular parent entities, for example, those that conduct substantive operations.

5.3.1 Minimum set of information required

The perceived information needs outlined in sections 5.1 and 5.2 indicate that at least some of the respondents would like to see the requirements for a full set of parent entity financial reports retained, while others would be satisfied with reduced reporting requirements. It is possible that those respondents indicating that a full set of parent entity financial reports is preferred would be able to perform their analysis on an abridged set of financial statements supported by selected note disclosures. To determine if this is the case, the interviewees were asked questions to determine whether they did in fact need each and every component of the parent entity financial reports that they had previously indicated that they use. That is, what is the minimum set of parent entity information required to perform their analysis?

For the majority of interviewees, the minimum set of parent entity information required to satisfy their information needs is closely correlated with the perceived information needs. However, some did concede that they could get by with a reduced level of parent entity reporting. In particular, two of the five interviewees stating that their *preferred* level of parent entity reporting is a full set of financial reports indicated that an abridged set of financial statements with some pertinent note disclosures would suffice.

Bankers. Three of the eight bankers interviewed confirmed that a full set of financial reports, including notes is required to conduct a thorough financial assessment. For example, the

Chief Credit Officer of a major Australian bank made the following statement about bankers working in the credit assessment area:

In terms of the specific financials, they will go through every single line to satisfy themselves that they understand why [each item is] there and what [it] means to the business in terms of profit and loss, its balance sheet structure, its cash flows. Even to the point of reading through every page of the notes... There's probably nothing... that's typically more important than anything else because it will be industry and company specific as to what it is we're looking for and whether the strength of the business is in its balance sheet, or its future cash flows, or its ability to generate profits.

An analysis was conducted of the minimum information requirements specified by the five bankers indicating less than full parent entity financial reports are required. This analysis revealed that at least one of these bankers relies on being able to obtain full parent entity financial reports directly from the company if it is determined from limited disclosures that the parent entity financial reports would be relevant. The other four suggested that a combination of abridged financial statements and particular notes would suffice. The notes required are all of those pertaining to assets and liability accounts, as well as contingencies and revenues.

Other financial report user groups. Even if the minimum set of information described above in relation to bankers would satisfy their information needs, interviewees from other financial report user groups indicated that they require the following parent entity note disclosures: related party disclosures, future capital expenditure commitments, dividends and franking credits, retained earnings and other capital accounts, deeds of cross guarantee, and other guarantees and indemnities. The addition of these notes to those indicated by the bankers interviewed would result in a set of abridged parent entity financial reports that would not be significantly shorter than the full reports currently required.

Overall, it appears that a reduction in the current reporting requirements for parent entity financial reports would result in the information needs of some financial statement users being compromised. The following sections outline results of investigations into (a) whether parent entity financial reports could be distributed through alternative channels from the

published annual report; and (b) whether parent entity financial reports are only needed for parent entities conducting substantive operations.

5.3.2 Requirements for audit, lodgement and publication of parent entity financial reports

To address the issue of whether there is potential for a reduction in requirements for parent entity financial reports to be audited and published in the annual report, interviewees were asked questions about whether:

- they would be able to obtain parent entity financial reports directly from the company, if they were no longer required to be made publicly available;
- they require the parent entity financial reports to be audited; and
- their information needs would be satisfied if parent entity financial reports were simply required to be lodged and made available through ASIC rather than published in the annual report.

The ability to obtain parent entity financial reports directly from companies varies across financial report user groups. While equity analysts, stockbrokers, fund managers and individual shareholders are not generally able to access information directly from the company, debt rating analysts and bankers generally are. Both of the debt rating analysts and the majority of bankers interviewed suggested that they are able to get parent entity information directly from the entity. However, four of the bankers tempered their comments by stating that there are instances where entities are not always forthcoming with information in addition to that published in the annual report. In particular, very large, highly-rated corporations are powerful borrowers and are therefore sometimes reluctant to provide additional information. Importantly, two of these are the same bankers stating that a full set of financial reports is required to meet their information needs.

Audit. The majority of the interviewees stated that it is very important for the parent entity financial reports to be audited. The only exceptions were the debt rating analysts and some bankers who regularly receive unaudited information directly from entities, and even these financial report users tend to prefer audited over unaudited information.

Lodged with ASIC rather than published. All of the interviewees that use at least part of the parent entity financial reports indicated that having these financial reports lodged and available through ASIC would satisfy their information needs. However, two of them indicated that they would *prefer* to see them included in published reports since they are then more readily accessible to market participants, and there is more scrutiny of this information if it is published. Another interviewee stipulated that simply lodging parent entity financial reports with ASIC would be acceptable so long as there is a requirement to file them within the same time period as consolidated financial reports.

Finally, one interviewee (Executive General Manager Finance and Administration for a company that is a large creditor) offered a suggestion about the information that should be disclosed in published reports if the parent entity financial statements were simply lodged with ASIC and not published. He suggested that the published reports should include disclosures pertaining to:

- how the group is structured, including which entities within the group conduct the major trading and financing operations; and
- any guarantees and cross-guarantees that are in place, including a disclosure about which entities are party to the guarantee, particularly relating to a "Class Order" structure in Australia.

There is some overlap between these suggested disclosures and those proposed by those questionnaire respondents indicating that limited disclosures were perceived to be the most appropriate form of parent entity reporting:

- details of guarantees, indemnities and class orders;
- details of any charges over the parent entity's assets;
- details of any contract or contingency that has potential to shift value from the parent entity to other entities within the group; and
- parent entity shareholders' funds.

5.3.3 Do the requirements pertain to all parent entities?

The above analysis indicates that, to satisfy the information needs of the diverse group of financial report users surveyed, full rather than abridged audited parent entity financial reports should at least be lodged with ASIC, if not published in the annual report. However, this information may not be required in all cases. To assess this possibility, the questionnaire

asked: Does your use of parent entity financial reports depend on whether the parent entity conducts substantive operations or is only a holding entity with no substantive operations?

An analysis of questionnaire responses shows that for 22 of the 42 respondents using parent entity financial reports, their use depends on whether the parent entity conducts substantive operations. Comments provided by several questionnaire respondents indicate that parent entity reports are used to determine *whether* the parent does in fact conduct substantive operations. Other comments included in the questionnaire responses indicate that the usefulness of parent entity reports also depends on other factors such as:

- whether the parent entity or another group entity is the borrowing entity;
- whether the parent entity is providing a guarantee; and
- whether the parent entity has a credit rating and relies on upstream cash flows from subsidiaries.

The factors most likely to influence the need for financial reports were further investigated during the course of the interviews.

Whether the parent conducts substantive operations. Interestingly, the majority of financial report users interviewed do not consider this distinction to be of primary importance. This is often because they consider other factors to be at least equally important when deciding whether to conduct a detailed analysis of parent entity financial reports. Furthermore, several of the interviewees stated that they need to undertake at least an initial assessment of parent entity financial reports to determine:

- (a) the parent's significance to the group, in terms of either core operations or treasury operations;
- (b) the location of the borrowings; and
- (c) the overall group structure and inter-relationships.

Finally, the interviewees that either don't use parent entity financial reports or require only limited disclosures confirmed that, whether the parent entity conducts substantive operations does not impact on their decision.

Which member of the group is the borrower. Several of the interviewees stated that parent entity financial reports are used to help determine the location of borrowings, regardless of

whether it is a holding company or conducts substantive operations. This information helps bankers to determine which entity to lend to and whether guarantees are needed. Bankers and other creditors need to know whether borrowings reside in the parent or in one or more operating subsidiaries. One reason that this information is needed is to avoid structural subordination. That is, lending to the parent when other creditors are lending to particular subsidiaries where the assets and operations reside. In that case, the other creditors rank ahead of the bank since the assets of the operating subsidiary would be applied to the debts of that subsidiary before the debts of the parent entity. For example, an Executive Manager of a major Australian bank said:

Whether or not it conducts operations in its own right doesn't limit my desire to still want the parent company accounts to check... which member of the group is actually the borrower... you don't know from looking at the consolidated accounts which member of the group actually is the borrower... if that number [external bank debt] more or less matches in the parent company accounts well you know that the parent is the group's borrower and it then on-lends to the subsidiary... knowing that we rank the same as every other bank is important from a lender's point of view.

Guarantees. One of the bankers interviewed indicated that the use of parent entity financial reports depends on whether there is a Deed of Cross Guarantee in place between the parent and wholly-owned subsidiaries. In that case the lending is effectively to a group of entities rather than the parent entity, so parent entity reports are less useful. On the other hand, several of the other interviewees said that if a parent is guaranteeing one or two subsidiaries, the financial reports of the parent are analysed. The difference relates to the direction of recourse available. If the recourse flows only from the parent to the subsidiaries, parent entity financial reports are useful for assessing the credit risk of the guarantor parent. However, if the recourse flows both ways, as in the case where there is a Deed of Cross Guarantee between the parent and all wholly-owned subsidiaries, the lending is effectively to the group, and it is the consolidated rather than the parent entity financial reports that are useful.

Ability to access cash flows of subsidiaries. One of the debt rating analysts interviewed stated that he tends to rely more on parent entity reports when there are significant subsidiaries that are not wholly owned. That is because the parent may not be able to gain unfettered access to the cash that these subsidiaries generate.

Overall, it appears that there are several factors that make the parent entity financial reports of one group more useful than those of another. These financial reports are more likely to be required when the parent (a) conducts substantive operations, including treasury operations, (b) is the borrowing entity, (c) singularly guarantees the debt of one or more subsidiaries, or (d) is unable to gain unfettered access the cash flows of subsidiaries.

6. Discussion and Conclusions

This research investigates the parent entity information needs of a diverse sample of GPFR users. Current Australian reporting regulations require full audited parent entity financial reports to be lodged with ASIC. Australian practice is to publish the parent financial statements alongside the consolidated financial statements in the annual report.¹³

Survey data were collected via both an internet questionnaire and personal interviews. The sample comprises regular users of GPFRs from across a diverse range of financial report user groups. While the relatively small sample size used for this research has the potential to limit the validity of the results, the sample selection procedures used make it unlikely that the results are not representative of the majority of GPFR users.

The results indicate that many financial report users, predominantly those working in roles involving credit risk assessment, use information from the parent entity financial reports. The frequency of use and particular components of financial reports used varies across financial report user groups. There is no particular sub-set of information that would satisfy the parent entity information needs of all GPFR user groups. Overall, the results indicate that a reduction in the current reporting requirements for full parent entity financial reports would result in the information needs of some financial report users being compromised. Therefore, there is limited potential to reduce parent entity reporting requirements to less than a full set of financial statements and notes. However, an examination of financial report users' needs for parent entity financial reports to be audited, lodged with ASIC and published, as well as

¹³ Section 295 of the Act requires that both sets of financial statements be included in the financial report and that the directors' report and the auditor's report apply to both sets. However, they are not required to be presented alongside each other and other forms of presentation could be employed.

their information needs in relation to particular types of parent entities, revealed some potential for a reduction in reporting requirements.

All of the users of parent entity information who were interviewed agreed that, so long as the parent entity financial reports are audited and lodged with ASIC, it is not necessary for them to be published in the annual report. It is likely that the elimination of requirements to publish parent entity financial reports in the annual report would result in some cost savings to preparers and users. That is, while parent entity financial reports will still be prepared and audited, there would be a reduction in the complexity of the published annual report due to the removal of the parent entity columns.

The users who are more focused on consolidated information would be able to review annual reports without the clutter inherent in multi-column financial reports. Some of the respondents, notably debt rating analysts and some (but not all) of the bankers interviewed, indicated that they are able to obtain parent entity information directly from the entities being analysed. However, since this information is not directly available to *all* financial report users indicating that they rely on parent entity financial reports, a continuation of requirements to lodge parent entity reports with ASIC would ensure that their information needs continue to be satisfied.

Some of the respondents indicated that, while it is not necessary to have the full parent entity financial report included in the annual report, some limited disclosures concerning the parent entity and group structure would be useful. The type of information that they indicated would be most useful includes:

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

The inclusion of this information would allow financial report users to determine whether it would be useful to obtain the full parent entity financial report for a particular company from

ASIC, and would provide sufficient information to facilitate decision making without obtaining the full parent entity financial report in many cases.

Further, the results indicate that there are several factors that make the parent entity financial reports of one group more useful than those of another. It would therefore be possible to eliminate the requirement for audited parent entity financial reports to be lodged with ASIC for some parent entities. Particularly, respondents indicated that parent entity financial reports are more likely to be required when the parent:

- (a) conducts substantive operations, including treasury operations;
- (b) is the borrowing entity;
- (c) singularly guarantees the debt of one or more subsidiaries; or
- (d) is unable to gain unfettered access the cash flows of subsidiaries.

The last of these factors was suggested by the debt rating analysts interviewed. However, since this financial report user group can get parent entity information directly from the entity, it is not a necessary condition for requiring parent entity financial reports to be audited and lodged with ASIC.

The results of this research indicate that an exemption from lodging audited parent entity financial reports with ASIC for parent entities that:

- o do not conduct substantive operations, including treasury operations;
- o are not borrowing entities; and
- o are not a single guarantor for the debt of one or more subsidiaries;

would not compromise the parent entity information needs of financial report users. Note that the exemption could be available to groups with a Deed of Cross Guarantee, so long as none of the criteria outlined above are satisfied. The situation that renders parent entity financial reports necessary is where the parent is a *single* guarantor for the debt of one or more subsidiaries.

An exemption from lodging audited parent entity financial reports with ASIC would require an additional disclosure in the annual report. This disclosure would comprise a statement about whether a full audited parent entity reports has been lodged with ASIC. If not, the disclosure should also include a statement indicating that the exception criteria outlined above are satisfied. An exemption for ASIC lodgement requirements for particular parent

entities would require guidelines to be developed. For example, substantive operations might be defined as greater than one percent of group turnover.

These conclusions are embodied in the recommendations set out below.

7. Recommendations

1. Remove the requirement for parent entity financial reports to be published in the annual report;
2. Retain the requirement for full audited parent entity general purpose financial reports to be lodged with ASIC except for parent entities that:
 - (a) do not conduct substantive operations, including treasury operations;
 - (b) are not borrowing entities;
 - (c) are not single guarantors for the debt of one or more subsidiaries.
3. Require disclosure of the following to be published in the annual report:
 - (a) whether a full audited parent entity report has been lodged with ASIC, and, if not, a statement indicating that each of the exception criteria contained in (2) above are satisfied;
 - (b) parent entity shareholders' funds, including dividends and franking credits, if different from the consolidated amounts;
 - (c) the manner in which the group is structured, including which entity(s) within the group conduct the major trading and treasury operations;
 - (d) in which entities the group's borrowings and contingent liabilities reside;
 - (e) class orders, guarantees and indemnities in place, including which entities are party to the guarantee(s).¹⁴

The above recommendations are subject to a review of possible practical difficulties with their implementation. For example, it may be difficult to adequately differentiate between those firms that do and do not conduct substantive operations.

¹⁴ ASIC Class Order 98/1418 (part H and I) already requires disclosures in respect of entities subject to a deed of cross guarantee.

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APPENDIX A

International Practices for Parent Entity Reporting

Project Brief

Survey current parent entity reporting practices for publicly-listed entities in all International Accounting Standard Board (IASB) liaison standard-setting countries.

Countries Surveyed

Canada	New Zealand
France	United Kingdom
Germany	United States of America
Japan	

Key Findings

New Zealand, Japan, Germany and France all require provision of both parent entity and consolidated data in financial reports. In the UK the parent entity is required to provide its reports but there is an optional exemption in legislation from presenting a profit and loss account (note disclosure is required if the optional exemption is exercised). The United States does not require parent entity data to be presented in either annual or interim reports, and Canada expressly prohibits it.

Research Approach

The standard setting body in each country was sent an e-mail questionnaire designed to facilitate the completion of this research paper (summarised responses are presented below). Answers received were confirmed by secondary research, a key reference of which is *Transnational Accounting* (2nd Edition) (Dieter Ordelheide, KPMG eds, Published in 2001 by Palgrave NY), which provides a high level of detail on the accounting framework and requirements in various jurisdictions. Stock exchanges in the jurisdictions surveyed have also been examined. Hyperlinks to these exchanges and listing requirements (where relevant) are included below.

Summarised Survey Responses of Current Practice – Parent Entity Reporting

	Question 1	Question 2	Question 3	Question 4	Question 5	Question 6	Question 7
Country	Consolidated reports?	Parent entity reports?	Same document?	Recognition and measurement the same?	Similar Presentation?	Minimum disclosure for abridged?	Governing regulation?
Canada	Yes.	No.	N/A	N/A	N/A	N/A	
France	Yes.	Yes.	Yes.	No. Some differences relating to specific accounting treatments.	Yes.	N/A	The Commercial Code. Lois sur les Sociétés Commerciales. Listing Rules.
Germany	Yes.	Yes.	Not necessarily. If presented together, the notes may be combined.	Yes.	Yes. However, cash flow statements, segment reports and a statement of changes in equity are not required for parent entity reports.	N/A	German Commercial Code and German Accounting Standards.
Japan	Yes.	Yes.	Yes. If presented together, the notes may be combined.	Yes.	Yes.	N/A.	Securities Exchange Law.
New Zealand	Yes.	Yes.	No legal requirement but entities usually report in same document.	Yes.	Yes.	N/A.	Companies Act 1993. Financial Reporting Act 1993. Financial Reporting Standards. NZSE Listing Rules.
United Kingdom	Yes.	The parent entity is required to provide its reports but there is an optional exemption in legislation from presenting a profit and loss account.	Yes.	Legal requirement to disclose and explain differences.	Yes, except for the exemption in question 2.	N/A.	Companies Act 1985. Companies Act 1989. Stock exchange listing rules. ASB accounting standards.
United States	Yes.	No. A condensed	Yes, if required.	No.	Yes.	A condensed report	SEC Regulation

		report and/or additional footnote disclosure may be required depending on the individual circumstances.				and/or additional footnote disclosure may be required depending on the individual circumstances.	S-X.
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Question 1: With reference to reports issued to shareholders, are companies listed on stock exchanges in your jurisdiction required to provide consolidated reports?

Question 2: With reference to reports issued to shareholders, are companies listed on stock exchanges in your jurisdiction required to provide parent entity reports?

Question 3: If parent entity reports are required to be presented, are they presented in the same document as the consolidated report?

Question 4: If parent entity reports are required to be presented, are the recognition and measurement requirements the same as those applied to the consolidated entity?

Question 5: If parent entity reports are required to be presented, are the presentation requirements similar to those applied to the consolidated entity (for example, are abridged reports sufficient)?

Question 6: If abridged reports or other more limited information is required for the parent entity, please describe the minimum disclosure requirements?

Question 7: What regulation governs the preparation of reports issued to the shareholders of a listed entity (for example: stock exchange listing rules, company law, accounting standards or a combination)?

CANADA

1. Are publicly listed parent entities required to prepare and disclose financial reports in addition to the consolidated entity?

Publicly listed companies are not required to present parent entity reports; indeed, consolidation has become the only acceptable form of reporting.ⁱ Individual accounts (non-consolidated statements) may not be issued to the general public.ⁱⁱ The listing rules effectively prohibit listed companies from issuing parent entity reports. Public disclosure of consolidated annual reports is required only of public corporations. All Corporations must present their annual consolidated financial statements to the annual general meeting of shareholders.ⁱⁱⁱ

2. Legislative framework – is the practice determined by statute, accounting standards or other mechanisms?

Corporations whose shares or debt securities are publicly traded are required by the Provincial Securities Acts to prepare audited annual financial statements. The [Toronto Stock Exchange](#) (note that there are multiple provincial exchanges) requires listed companies to file with the exchange and forward to shareholders the annual report and financial statements. Half year reports must be filed with the exchange, and can be either made publicly available or sent to shareholders^{iv} (see listing rules [¶1400-686 to 1400-714](#)).

3. Are the requirements for parent entity reports different from the requirements for the economic entity, and if so how?

When non-consolidated statements are prepared by a company that has controlled subsidiaries (either because of special purposes or by agreement of the shareholders of a private company), the following information must be disclosed:

- the reason that non-consolidated statements are issued
- the fact that, as the non-consolidated financial statements have not been prepared for general purposes, some users may require further information
- a reference to consolidated financial statements, if any exist
- the fact that the financial statements are in accordance with generally accepted accounting principles except that they are prepared on a non-consolidated basis.
- the method of accounting for subsidiaries (i.e. cost or equity method).^v

FRANCE

1. Are publicly listed parent entities required to prepare and present financial reports, in addition to the consolidated entity?

Publicly listed companies must publish in the official gazette (BALO) both parent entity financial statements and consolidated financial statements,^{vi} and must issue such reports to shareholders.^{vii} With respect to interim reports,^{viii} listed companies normally only publish consolidated data.^{ix}

2. Legislative framework – is the practice determined by statute, accounting standards or other mechanisms?

The obligation to prepare accounts is determined by statute:

- **Individual accounts** - The Commercial Code (CC Art 8) requires all traders and companies which carry on a trade or profession, and ‘large’^x non-commercial entities, to prepare annual financial statements^{xi}.
- **Consolidated accounts** - The LSC Art. 357-1 (*Lois sur les Sociétés Commerciales*)^{xii} requires certain types of companies (including stock companies) to establish and publish consolidated accounts if they control or exercise significant influence over other enterprises. There are some exemptions for sub-groups, negligible interests or small groups.^{xiii}

Under the Commercial Code, practices are determined by the General Accounting Plan (PCG), which is codified and must be followed by all businesses when preparing accounts.^{xiv} The Comité de Réglementation Comptable (CRC) is responsible for regulating the PCG.^{xv} The [CNC](#), a professional accounting body, issues accounting opinions which are submitted to the CRC, most of which become regulations as part of the PCG. When put into regulations, these opinions are part of the doctrine and a benchmark for best practice.

3. Are the requirements for parent entity reports different from requirements for the economic entity, and if so how?

There are several key differences in the reporting requirements for consolidated and individual accounts (including parent entities), which have been introduced due to pressure from big multinational groups eager to benefit from flexible rules permitting them to prepare consolidated accounts in a manner similar to US or UK requirements:^{xvi}

- capitalisation of **finance leases** is permitted in consolidated accounts (but is not permitted in individual accounts).^{xvii}
- **revaluation** in individual accounts is only allowed in exception circumstances (as the basic rule expressed by the Commercial Code is historical cost evaluation). In consolidated accounts, according to DSC Art. 248-8, it is possible to practice a permanent revaluation either according to general purchasing power method (all assets and liabilities)^{xviii} or the replacement cost method (only for securities or tangible assets subject to depreciation).^{xix}

- output of inventory from fungible elements (**joint products**) in individual accounts can only be valued using averaged weighted cost method and FIFO, while LIFO is acceptable in consolidated accounts.^{xx}
- **capitalisation of interest expenditure** in individual accounts is limited to current assets and elements whose production cycle spans the accounting period. In consolidated statements these restrictions do not exist.^{xxi}
- **foreign currency gains.** In individual accounts unrealised gains related to pending claims or liabilities in foreign currencies must be directly registered in the balance sheet on the liabilities side, while in consolidated accounts, unrealised gains may be directly registered as period gains (as consistent with IAS 21).

GERMANY^{xxii}

1. Are publicly listed parent entities required to prepare and present financial reports, in addition to the consolidated entity?

The requirements for corporations to prepare group accounts is regulated in para. 290 German Commercial Code (“Handelsgesetzbuch” or “HGB”). There are two concepts under which group accounts have to be prepared: the concept of unified management control and the control concept. The last one is similar to the concept given by IAS 27. Besides this, German Accounting Standard (GAS) No. 4 regulates accounting for acquisitions in consolidated financial statements.

In addition, publicly-traded companies may prepare group accounts under IAS/IFRS or US GAAP instead of preparing group accounts according to HGB; sunset date of this exemption from preparing accounts in conformity with HGB: 31 December 2004 (para. 292 a HGB).

Corporations which fulfil the criteria of paragraph 290 HGB have to prepare group accounts (there are some exemptions from this rule, e.g. size-related exemptions) regardless whether they are listed on stock exchanges or not.

Group accounts consist of consolidated financial statements and a consolidated management report (comparable to MD&A). They have to be prepared within the first five months of the group of companies’ fiscal year for the preceding fiscal year. They have to be published in the Federal Gazette without undue delay, but at the latest prior to the expiration of the twelfth month of the fiscal year following.

Each corporation has to prepare individual accounts irrespective whether it is listed on stock exchanges or not (paras. 242, 264 HGB). Even a parent company, which prepares and publishes group accounts, has to prepare and publish individual accounts.

Individual accounts consist of financial statements and a management report. They have to be prepared within the first three months of the fiscal year for the preceding fiscal year. They have to be published in the Federal Gazette without undue delay, but at the latest prior to the expiration of the twelfth month of the fiscal year following.

2. Legislative framework – is the practice determined by statute, accounting standards or other mechanisms?

In general, company law (German Commercial Code) and German Accounting Standards govern the preparation of financial statements irrespective whether an entity is listed or not. In addition, specific stock exchange laws regulate specific information to be given by listed companies, e.g. the duty to prepare interim financial reports.

3. Are the requirements for parent entity reports different from requirements for the economic entity, and if so how?

Recognition

The assets, liabilities and accrued and deferred items as well as the revenues and expenses of the entities included in consolidated financial statements shall be included in full regardless of their being taken into account in the annual financial statements of these subsidiaries to the

extent that pursuant to the law applicable to the parent a prohibition of inclusion in the balance sheet or an optional accounting treatment does not exist. Optional accounting treatments permitted pursuant to the law applicable to the parent may be exercised in the consolidated financial statements regardless of their use in the annual financial statements of the entities included in consolidated financial statements. Carrying amounts based on the application of provisions applying to banks or insurance companies because of the special characteristics of the line of business can be kept (para. 300 HGB).

Measurement

The assets and liabilities included in the consolidated financial statements shall be measured uniformly according to the valuation methods applicable to the annual financial statements of the parent. Valuation method options permissible pursuant to the law governing the parent may be used in the consolidated financial statements regardless of their use in the annual financial statements of the entities included in the consolidated financial statements. Carrying amounts that are based on the use of regulations applicable to banks or insurance companies because of the peculiarities of these lines of business may be retained. In addition, deviations in exceptional cases are permissible (para. 308 HGB).

The presentation requirements are generally the same. However, in contrast to individual financial statements consolidated financial statements have to contain a cash flow statement, a segment report and a statement of changes in equity.

JAPAN

1. Are publicly listed parent entities required to prepare and present financial reports, in addition to the consolidated entity?

Yes.

Preparation and publication of parent entity and consolidated financial statements is required by the Securities and Exchange Law (SEL), which only applies to publicly traded companies.^{xxiii} Semi-annual financial statements are also required for the consolidated entity (since 1 April 2000) and for the parent entity.^{xxiv}

The [Osaka](#) and [Tokyo](#) stock exchanges require annual and half yearly reports to be mailed to investors and made publicly available, but do not appear to dictate the level of preparation for these reports ([link](#)).

2. Legislative framework – is the practice determined by statute, accounting standards or other mechanisms?

Listed companies in Japan have to prepare both consolidated and parent entity reports in their financial statements under the Securities Exchange Law. The Corporate Law, which prescribes the requirements for reporting to shareholders, requires that the financial report (including parent entity and consolidated statements) be issued to shareholders.^{xxv}

3. Are the requirements for parent entity reports different from requirements for the economic entity, and if so how?

Yes. There is no distinction between them. However, where companies' file both consolidated accounts and parent entity accounts in their financial reports, they can omit some notes in parent entity accounts, which have already been disclosed in consolidated accounts.^{xxvi}

1. Are publicly listed parent entities required to prepare and present financial reports, in addition to the consolidated entity?

Yes. Under the provisions of the Financial Reporting Act 1993 and Companies Act 1993, a listed company must present both parent and consolidated group accounts. Section 211(1b) of the Companies Act 1993, requires that listed companies:

Include financial statements for the accounting period completed and signed in accordance with section 10 of the Financial Reporting Act 1993 and any group financial statements for the accounting period completed and signed in accordance with section 13 of that Act.

Sections 10 and 13 of the Financial Reporting Act 1993 require that the accounts be prepared in accordance with ‘generally accepted accounting practice,’ which are those practices approved by the [Accounting Standards Review Board](#). Listed New Zealand companies are not required by law to provide semi-annual reports, however the listing rules of the [New Zealand Stock Exchange](#) require them.

These financial statements must be issued to all shareholders according to Section 209(1) of the Companies Act 1993:

Subject to subsection (2) of this section, the board of a company must cause a copy of the annual report to be sent to every shareholder of the company not less than 20 working days before the date fixed for holding the annual meeting of shareholders.

Furthermore, a company listed on the New Zealand Stock Exchange is required to issue the reports prepared under the Companies Act to all shareholders.

2. Legislative framework – is the practice determined by statute, accounting standards or other mechanisms?

- Companies Act 1993 – obligation to prepare annual report and send to shareholders; and some minimum disclosures (s211) unless shareholders unanimously agree not to disclose;
- Financial Reporting Act 1993 – contents of financial statements; obligation to prepare financial statements, financial statements must comply with GAAP, what constitutes GAAP;
- Financial Reporting Standards – approved by ASRB therefore have legal backing, comprise GAAP;
- NZSE Listing Rules – issue of annual audit report and half-yearly report; reports to contain information required by law as well as other information detailed in listing requirements

3. Are the requirements for parent entity reports different from requirements for the economic entity, and if so how?

No. According to the Financial Reporting Act 1993, group and individual entity accounts are required to be prepared according to accounting principles developed by the Accounting Standards Review Board.

UNITED KINGDOM

1. Are publicly listed parent entities required to prepare and present financial reports in addition to the consolidated entity?

While the UK reporting framework requires preparation and presentation of parent entity financial information, there is an optional exemption from presenting a profit and loss statement. Footnote disclosure of the parent entity profit or loss is required if the optional exemption is exercised.^{xxviii}

2. Legislative framework – is the practice determined by statute, accounting standards or other mechanisms?

The regulation discussed in part one is sourced from the Companies Act 1989. The UK model of regulation bears close resemblance to that of Australia. Compliance with accounting standards issued by the [Accounting Standards Board](#) (ASB) is compulsory for ‘large’ entities under the Act.^{xxix}

The development of accounting standards is the responsibility of the ASB, with policy guidance provided by The Financial Reporting Council (FRC).^{xxx}

3. Are the requirements for parent entity reports different from the requirements for the economic entity, and if so how?

No. There is no difference between the framework and rules applied for the preparation of individual company accounts, and those of a consolidated group. Specific application of accounting rules may vary between the parent and consolidated accounts, however these must be explained and disclosed in the notes to the accounts.^{xxxi}

UNITED STATES

1. Are publicly listed parent entities required to prepare and present financial reports in addition to the consolidated entity?

The SEC requires companies listed on U.S. stock exchanges to provide consolidated reports. Reg. Section 210.3-01(a) states that “there shall be filed, for the registrant and its subsidiaries consolidated, audited balance sheets as of the end of each of the two most recent fiscal years.” There is no requirement to present parent entity reports in addition to the consolidated reports.^{xxxii} ASR 302 modified a requirement in Regulation S-X to include in filings with the SEC separate financial statements of the parent company. Instead of requiring separate financial statements for the parent company, ASR 302 requires certain additional disclosures in footnotes to consolidated financial statements and the presentation of condensed financial information in a schedule to the financial statements when certain restrictions exist on the ability of subsidiary companies to transfer funds to the parent through intercompany loans, advances or cash dividends. As a result, complete separate financial statements of the parent are no longer required.^{xxxiii}

The accounting literature (ARB 51) states that “in some cases parent-company statements may be needed, in addition to consolidated statements, to indicate adequately the position of bondholders and other creditors or preferred stockholders of the parent. Consolidated statements, in which one column is used for the parent company and other columns for particular subsidiaries or groups of subsidiaries, often are an effective means of presenting pertinent information.”^{xxxiv}

Companies must issue an annual report to their shareholders that includes audited consolidated financial statements.^{xxxv} Annual reports (10-K)^{xxxvi} and quarterly reports (10-Q)^{xxxvii} must be filed with the SEC.

2. *Legislative framework – is the practice determined by statute, accounting standards or other mechanisms?*

The general obligation to prepare and present reports is established by statute. The Securities Exchange Act 1934 requires all companies with publicly traded securities to file an annual report with the SEC (Form 10-K). SEC Regulation S-X requires listed companies to send such reports to shareholders.

The content of those reports is in accordance with GAAP. ‘GAAP’ in the US is a broad notion that encompasses many different types of pronouncements and guidance. The ‘House of GAAP’ includes Authoritative Statements (i.e. APB Opinions, [FASB](#) Statements, EITF Abstracts, [AICPA](#) Accounting Research Bulletins), Industry Guidance and other Interpretations (AICPA Industry Guides, AICPA Statement of Positions, AICPA Interpretations, FASB Technical Bulletins – staff bulletins), Industry Practice and Concept Statements (APB Concept Statements, FASB Concept Statements, AICPA Issues Papers and other professional requirements).^{xxxviii}

3. *Are the requirements for parent entity reports different from the requirements for the economic entity, and if so how?*

No.

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- ⁱ Canadian Survey Response; CICA Handbook section 1590.17
- ⁱⁱ TA612
- ⁱⁱⁱ TA601
- ^{iv} See section 79 of the Ontario Securities Act together with Part IV, sections 8 and 9 of the [National Policy No.41](#) of the Canadian Securities Commissions.
- ^v CICA Handbook section 3050.39 cited in TA637
- ^{vi} TA1118
- ^{vii} French Survey Response
- ^{viii} Required of listed companies, companies with securities quoted on the secondary market which have been approved for admission to a full listing, and companies issuing investment certificates which are traded while the actual shares are not.
- ^{ix} TA1104
- ^x TA1046 for thresholds.
- ^{xi} Which comprise balance sheet, profit and loss and notes. See TA1046
- ^{xii} Article 357-1 of law No.66-537 of 24 July 1966
- ^{xiii} TA1151-1153
- ^{xiv} TAA1020
- ^{xv} TA1025. The CRC is chaired by the Minister of Economy or Finance or the person he designates, and has a membership which reflects a balance between administration and the private sector.
- ^{xvi} TA1159
- ^{xvii} TA1043; TA1159
- ^{xviii} Such methods are typically based on indexation.
- ^{xix} TA1159
- ^{xx} TA1160
- ^{xxi} TA1160
- ^{xxii} All the material herein is taken from the very detailed German Survey Response.
- ^{xxiii} Under the Japanese Commercial Code, the Securities and Exchange Law is applicable to corporations with publicly held securities, and prescribes preparation and disclosure of accounts. Japanese Survey Response; TA1726.
- ^{xxiv} TA1726
- ^{xxv} Japanese Survey Response
- ^{xxvi} Japanese Survey Response
- ^{xxvii} The material herein is taken from the relevant legislation and confirmed by the New Zealand Survey Response.
- ^{xxviii} UK Survey Response
- ^{xxix} TA2599; UK Survey Response
- ^{xxx} TA2585
- ^{xxxi} UK Survey Response
- ^{xxxii} While there is no obligation to present parent entity reports, in practice no separate records are kept for the consolidated group. Each company (i.e. parent company and subsidiaries) keeps its own accounts and bookkeeping records. There is a segregation of accounting for tax purposes and accounting for financial reporting services. The determination of taxable income is not based on accounting requirements but on the requirements and regulations of the Internal Revenue Service. See also Francis, 'Debt Reporting by Parent Companies: Parent-Only Versus Consolidated Statements' (1986) 13 *Journal of Business Finance and Accounting* 393; Walker, 'An Evaluation of Information Conveyed by Consolidated Statements' *Abacus* (December 1976) 77-115; Walker, *Consolidated Statements: A History and Analysis* (Arno Press, 1978).
- ^{xxxiii} US Survey Response
- ^{xxxiv} US Survey Response
- ^{xxxv} TA3053
- ^{xxxvi} The Securities Exchange Act 1934 requires all companies with publicly traded securities to file an annual report with the SEC (Form 10-K).
- ^{xxxvii} In accordance with APB.28. TA2891
- ^{xxxviii} TA2864