

AMENDMENTS TO

FRS 2 'ACCOUNTING FOR SUBSIDIARY  
UNDERTAKINGS'

FRS 6 'ACQUISITIONS AND MERGERS'

AND

FRS 28 'CORRESPONDING AMOUNTS'

LEGAL CHANGES



ACCOUNTING  
STANDARDS  
BOARD

*Amendments to Financial Reporting Standards: FRS 2 'Accounting for Subsidiary Undertakings'; FRS 6 'Acquisitions and Mergers' and FRS 28 'Corresponding Amounts' Legal Changes* is issued by the Accounting Standards Board in respect of its application in the United Kingdom and by the Institute of Chartered Accountants in Ireland in respect of its application in the Republic of Ireland.

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## **C O N T E N T S**

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## **PREFACE**

### **Background**

1. This Financial Reporting Standard (FRS) amends three Financial Reporting Standards:
  - a. FRS 2 ‘Accounting for Subsidiary Undertakings’;
  - b. FRS 6 ‘Acquisitions and Mergers’; and
  - c. FRS 28 ‘Corresponding Amounts’.
2. The amendments arise from the introduction of the ‘Companies Act 2006’ (the Act) and from ‘The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008’\* (the Regulations). The references provided in FRS 2, FRS 6 and FRS 28 all refer to the Companies Act 1985 and subsequent amendments to that Act. As a consequence of Part 15 of the Act and the Regulations, the references provided in these FRSs are redundant.
3. This FRS updates the references in the FRSs such that they correspond with the requirements set out in the Act and the Regulations.
4. The Accounting Standards Board (ASB) has previously amended FRS 2; most recently in December 2004 following amendment to the Companies Act 1985. The ASB also updated paragraph 98 of FRS 2, which sets out the legal requirements for entities in the Republic of Ireland, in July 1992. In view of the previous amendments to FRS 2, the ASB decided to present the FRS in full rather than simply specify the

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\* *The requirements for small companies are set out in ‘The Small Companies and Groups (Accounts and Directors’) Report Regulations 2008’.*

amendments required. An amended FRS 2 is presented in section one of this FRS.

5. The ASB decided, however, as FRS 6 and FRS 28 did not require such extensive amendment as FRS 2 and have not been revised in the past, to present the changes to the FRSs only. The amendments to FRS 6 and FRS 28 are set out in section two and three respectively.

### **Regulatory Impact**

6. The ASB considered if it should amend the existing FRSs or leave the FRSs without updating. The ASB considered this particularly in respect of its current agenda for convergence of UK FRS with International Financial Reporting Standards (IFRS). In view of this, the ASB carefully considered the cost and benefits of preparing the amendments to existing FRSs given their expected future life span. The ASB, however, decided it should update the references in the FRSs to assist preparers and auditors of financial statements. The ASB decided that retaining existing FRSs with redundant references would diminish their usefulness and possibly hinder preparers and auditors in their work. The ASB decided it should, however, limit itself to updating the FRSs only for amendments arising from the Act and the Regulations and not to revise or update the FRSs for any other potential amendments. Respondents to the Financial Reporting Exposure Draft issued in December 2008 generally agreed with the ASB proposals.

**SECTION ONE**

**FRS 2 (AS AMENDED)**

**‘ACCOUNTING FOR SUBSIDIARY  
UNDERTAKINGS’**

**LEGAL CHANGES**

## **SUMMARY**

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- a Financial Reporting Standard No. 2 – ‘Accounting for Subsidiary Undertakings’ (the FRS) sets out the conditions under which an undertaking that is the parent undertaking of other undertakings (its subsidiary undertakings) should prepare consolidated financial statements. The FRS also sets out the manner in which consolidated financial statements are to be prepared. The purpose of consolidated financial statements is to provide financial information about the economic activities of a group. The Companies Act 2006 defines a parent undertaking and its subsidiary undertakings that together make up a group. The FRS adopts these definitions.
- b Withdrawn.
- c The FRS applies to all parent undertakings that are required or opt to prepare consolidated financial statements. A parent undertaking that does not report under the Act should comply with the requirements of the FRS except to the extent that these are not permitted by any statutory framework under which the undertaking reports.
- d A parent undertaking which is not subject to the small companies regime in the UK or which cannot take advantage of the size exemption set out in Irish Law\*, should prepare consolidated financial statements for its group in accordance with standard accounting practice set out in the FRS unless it uses one of the exemptions permitted by the Act and set out in paragraph 21 of the FRS.

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\* *An Irish parent company within the scope of the European Communities (Companies: Group Accounts) Regulations 1992 is exempt from the requirement to prepare group accounts if it meets the size and other criteria set out in Regulation 7 of those Regulations. The size criteria in summary require that the parent and subsidiaries together meet two of the following three conditions (i) balance sheet total does not exceed €7,618,428; (ii) turnover does not exceed €15,236,858 and (iii) average number of employees does not exceed 250.*

- e The Act and the FRS exempt a parent undertaking (which is not subject to the small companies regime or which cannot take advantage of the size exemption set out in Irish law) from preparing consolidated financial statements if:
  - (i) it is a wholly-owned or majority-owned subsidiary undertaking and its immediate parent undertaking is established under the law of an EEA State. Exemption is conditional on compliance with certain further conditions in section 400; or
  - (ii) it is a wholly-owned or majority-owned subsidiary undertaking and its parent undertaking is not established under the law of an EEA State. Exemption is conditional on compliance with certain further conditions in section 401; or
  - (iii) all of its subsidiary undertakings are permitted or required to be excluded from consolidation by section 402.
- f The consolidated financial statements should be prepared by consolidating financial information for the parent undertaking and all its subsidiary undertakings, except for any subsidiary undertakings that are to be excluded from consolidation by virtue of the requirements of the Act and the FRS.
- g A subsidiary undertaking is to be excluded from consolidation if:
  - (i) severe long-term restrictions substantially hinder the exercise of the parent undertaking's rights over the subsidiary undertaking's assets or management; or
  - (ii) the group's interest in the subsidiary undertaking is held exclusively with a view to subsequent resale and the subsidiary undertaking has not previously been consolidated.

The Act permits rather than requires exclusion in cases (i) and (ii) above. The FRS requires exclusion in these circumstances because the same conditions that justify permitting exclusion also make consolidation inappropriate. In addition, the FRS requires the circumstances in which subsidiary undertakings are to be excluded from consolidation to be interpreted strictly. It is important that only those subsidiary undertakings whose consolidation would be inappropriate are excluded from consolidation so that consolidated financial statements reflect in full the resources, obligations and results of the group.

- h The FRS requires additional disclosures for subsidiary undertakings excluded from consolidation and requires them to be accounted for as follows.
  - (i) Subsidiary undertakings excluded from consolidation because of severe long-term restrictions are to be treated as fixed asset investments. They are to be included at their carrying amount when the restrictions came into force, subject to any write-down for impairment, and no further accruals are to be made for profits or losses of those subsidiary undertakings, unless the parent undertaking still exercises significant influence. In the latter case they are to be treated as associated undertakings.
  - (ii) Subsidiary undertakings excluded from consolidation because they are held exclusively for resale and have not previously been consolidated are to be included as current assets at the lower of cost and net realisable value.
- i Minority interests in total should be reported separately in the consolidated balance sheet and profit and loss account. When an entity becomes a subsidiary undertaking the assets and liabilities attributable to its minority interest should be included on the same basis as those attributable to the interest held by the parent and other subsidiary undertakings. The effect of this for an acquisition is that all the subsidiary undertaking's identifiable assets and liabilities are included at

fair value as required by the Act. No goodwill should be attributed to the minority interest.

- j Intra-group transactions may result in profits or losses being included in the book value of assets to be included in the consolidation; the FRS requires the elimination in full of any such profits or losses because, for the group as a whole, no profits or losses have arisen.
- k Uniform group accounting policies should generally be used in preparing the consolidated financial statements; in exceptional cases different policies may be used with disclosure.
- l The financial statements of all subsidiary undertakings to be used in preparing consolidated financial statements should have the same financial year end and be for the same accounting period as those of the parent undertaking of the group. Where the financial year of a subsidiary undertaking differs from that of the parent undertaking of the group, interim financial statements for that subsidiary undertaking prepared to the parent undertaking's accounting date should be used. If this is impracticable, earlier financial statements of the subsidiary undertaking may be used, provided they are prepared for a financial year that ended not more than three months earlier.
- m Changes in membership of a group occur on the date control passes, whether by a transaction or other event. Changes in the membership of the group during the period should be disclosed.
- n When a subsidiary undertaking is acquired the FRS requires its identifiable assets and liabilities to be brought into the consolidation at their fair values at the date that undertaking becomes a subsidiary undertaking, even if the acquisition has been made in stages. When a group increases its interest in an undertaking that is already its subsidiary undertaking, the identifiable assets and liabilities of that subsidiary undertaking should be revalued to fair value and goodwill arising on the

increase in interest should be calculated by reference to that fair value. This revaluation is not required if the difference between fair values and carrying amounts of the identifiable assets and liabilities attributable to the increase in stake is not material.

- o The effect of consolidating the parent and its subsidiary undertakings may be that aggregation obscures useful information about the different undertakings and activities included in the consolidated financial statements. Parent undertakings are encouraged to give segmental analysis to provide readers of consolidated financial statements with useful information on the different risks and rewards, growth and prospects of the different parts of the group. The specification of such analysis, however, falls outside the scope of the FRS.
- p The amendments to the FRS made in June 2009 take effect for accounting periods beginning on and/or after 6 April 2008, or when the provisions of the Act/or the Regulations are applied to other entities (eg limited liability partnerships), if later.

## **OBJECTIVE**

- 1 The objective of this FRS is to require parent undertakings to provide financial information about the economic activities of their groups by preparing consolidated financial statements\*. These statements are intended to present financial information about a parent undertaking and its subsidiary undertakings as a single economic entity to show the economic resources controlled by the group, the obligations of the group and the results the group achieves with its resources.

## **DEFINITIONS**

*The following definitions apply for the purposes of the FRS and in particular the statement of standard accounting practice set out in paragraphs 18 to 56.*

*The terms defined below, which are also defined in the Act or the Regulations, have the same meaning in the FRS as in the Act or the Regulations, notwithstanding that in some cases the FRS definition is a summary or explanation rather than a repetition of the definition in the Act or the Regulations. The definitions should therefore be interpreted by reference to the full provisions of the Act or the Regulations. The marginal notes give the main references in the Act or the Regulations. References to sections*

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\* 'Financial statements' is the term used in the FRS to mean the same as the term 'accounts' used in the Companies Act.

***and schedules are to those of the Act unless otherwise stated.***

**2** *The Act:-*

References in the FRS refer to the Companies Act 2006 unless otherwise specified.

**3** Withdrawn.

**4** *Consolidated financial statements:-*

The financial statements of a group prepared by consolidation.

**5** *Consolidation:-*

The process of adjusting and combining financial information from the individual financial statements of a parent undertaking and its subsidiary undertakings to prepare consolidated financial statements that present financial information for the group as a single economic entity.

**6** *Control:-*

The ability of an undertaking to direct the financial and operating policies of another undertaking with a view to gaining economic benefits from its activities.

*[FRS defining phrase used in s1162(4)(a)]*

**7** *Dominant influence:-*

Influence that can be exercised to achieve the operating and financial policies desired by the holder of the influence, notwithstanding the rights or influence of any other party.

- (a) In the context of paragraph 14(c) and section 1162(2)(c) *the right to exercise a dominant influence* means that the holder has a right to give directions with respect to the operating and financial policies of another undertaking with which its

*[From 7Sch 4(1)]*

directors are obliged to comply, whether or not they are for the benefit of that undertaking.

- (b) *The actual exercise of dominant influence* is the exercise of an influence that achieves the result that the operating and financial policies of the undertaking influenced are set in accordance with the wishes of the holder of the influence and for the holder's benefit whether or not those wishes are explicit. The actual exercise of dominant influence is identified by its effect in practice rather than by the way in which it is exercised. *[FRS defining phrase used in s1162(4)(a)]*
- (c) *The power to exercise dominant influence* is a power that, if exercised, would give rise to the actual exercise of dominant influence as defined in paragraph 7b.

**8** *Equity method:-*

A method of accounting for an investment that brings into the consolidated profit and loss account the investor's share of the investment undertaking's results and that records the investment in the consolidated balance sheet at the investor's share of the investment undertaking's net assets including any goodwill arising to the extent that it has not previously been written off.

**9** *Group:-*

A parent undertaking and its subsidiary undertakings.

*[From s474(1)]*

- 10** *Interest held on a long-term basis:-*  
 An interest which is held other than *exclusively with a view to subsequent resale*.
- [FRS defining phrase used in 10Sch 11: The Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008]
- 11** *Interest held exclusively with a view to subsequent resale:-*
- (a) an interest for which a purchaser has been identified or is being sought, and which is reasonably expected to be disposed of within approximately one year of its date of acquisition; or
- [FRS defining phrase used in 405(3)(c)]
- (b) an interest that was acquired as a result of the enforcement of a security, unless the interest has become part of the continuing activities of the group or the holder acts as if it intends the interest to become so.
- 12** *Managed on a unified basis:-*  
 Two or more undertakings are managed on a unified basis if the whole of the operations of the undertakings are integrated and they are managed as a single unit. Unified management does not arise solely because one undertaking manages another.
- [FRS defining phrase used in s1162(4)(b)]

- 13** *Minority interest in a subsidiary undertaking:-*  
 The interest in a subsidiary undertaking included in the consolidation that is attributable to the shares held by or on behalf of persons other than the parent undertaking and its subsidiary undertakings. *[From 6Sch 17 The Large and Medium sized Companies and Group (Accounts and Reports) Regulations 2008]*
- 14** *Parent undertaking and subsidiary undertaking:-*  
 An undertaking is the parent undertaking of another undertaking (a subsidiary undertaking) if any of the following apply. *[From s1162 and 7Sch]*
- (a) It holds a majority of the voting rights in the undertaking. *[From s1162(2)(a)]*
- (b) It is a member of the undertaking and has the right to appoint or remove directors holding a majority of the voting rights at meetings of the board on all, or substantially all, matters. *[From s1162(2)(b) and 7Sch 3]*
- (c) It has the right to exercise a dominant influence over the undertaking:
- (i) by virtue of provisions contained in the undertaking's memorandum or articles; or *[From s1162(2)(c) and 7Sch 4]*
- (ii) by virtue of a control contract. The control contract must be in writing and be of a kind authorised by the memorandum or articles of the controlled undertaking. It must also be permitted by the law under which that undertaking is established. *[From 7Sch 4(2)]*

(d) It is a member of the undertaking and controls alone, pursuant to an agreement with other shareholders or members, a majority of the voting rights in the undertaking. *[From s1162(2)(d)]*

(e) (i) it has the power to exercise, or actually exercises, dominant influence or control over the undertaking; or *[From s1162(4)(a)]*

(ii) it and the undertaking are managed on a unified basis. *[From s1162(4)(b)]*

(f) A parent undertaking is also treated as the parent undertaking of the subsidiary undertakings of its subsidiary undertakings. *[From s1162(5)]*

For the purpose of section 1162 [parent and subsidiary undertakings] an undertaking shall be treated as a member of another undertaking: *[From s1162(3)]*

(i) if any of its subsidiary undertakings is a member of that undertaking; or

(ii) if any shares in that other undertaking are held by a person acting on behalf of the parent undertaking or any of its subsidiary undertakings.

Any shares held, or powers exercisable, by a subsidiary undertaking should be treated as held or exercisable by its parent undertaking. *[From 7Sch 9]*

**15** *The Regulations:-*

The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No 410)\*.

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\* *The requirements for small companies are set out in the Companies Act 2006 and in 'The Small Companies and Groups (Accounts and Directors' Reports) Regulations 2008 (SI 2008 No.409).*

- 16** *Undertaking:-* [From s1161]  
A body corporate, a partnership or an unincorporated association carrying on a trade or business with or without a view to profit.
- 17** *Voting rights in an undertaking:-* [From 7Sch 2(1)]  
Rights conferred on shareholders in respect of their shares or, in the case of an undertaking not having a share capital, on members, to vote at general meetings of the undertaking on all, or substantially all, matters. Schedule 7 deals with the attribution of voting rights in certain circumstances.

## STATEMENT OF STANDARD ACCOUNTING PRACTICE

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*The statement of standard accounting practice set out in paragraphs 18 to 56 of the FRS should be read in the context of the Objective of the FRS as stated in paragraph 1, the definitions set out in paragraphs 2 to 17 and also of the Foreword to Accounting Standards and the Statement of Principles for Financial Reporting currently in issue.*

*In the statement of standard accounting practice, marginal notes give the main references to the Act and the Regulations. If no marginal reference is given the requirement is that of the FRS alone. The statement of standard accounting practice should be interpreted by reference to the full provisions of the Act and the Regulations notwithstanding that the statement summarises certain provisions of the Act and the Regulations. References to sections, regulations and schedules are to those of the Act and Regulations unless otherwise stated.*

*The Explanation section of the FRS, set out in paragraphs 59 to 94, shall be regarded as part of the statement of standard accounting practice in so far as it assists in interpreting that statement.*

### *Scope*

- 18 This standard applies to all parent undertakings that prepare the financial statements described below, whether or not they report under the Act. Parent undertakings that prepare consolidated financial statements intended to give a true and fair view of the financial position and profit or loss (or income and

expenditure) of their group should prepare such statements in accordance with the requirements of the FRS. A parent undertaking that uses one of the exemptions from preparing consolidated financial statements (described in paragraph 21) but prepares individual financial statements intended to give a true and fair view of its own financial position and profit or loss (or income and expenditure) should include the statement required by paragraph 22. The FRS does not otherwise deal with the individual financial statements of a parent undertaking.

- 19** Parent undertakings that do not report under the Act should comply with the requirements of the FRS, and of the Act where referred to in the FRS, except to the extent that these requirements are not permitted by any statutory framework under which such undertakings report.
- 19A** This Standard does not apply to retirement benefit schemes, which are within the scope of FRS 17 'Retirement Benefits'.

### *Application to smaller entities*

- 19B** Reporting entities applying the Financial Reporting Standard for Smaller Entities (FRSSE) currently applicable are exempt from the FRS unless preparing consolidated financial statements, in which case they should apply the FRS to such statements as required by the FRSSE\*.

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\* *The requirements for small companies are set out in the Companies Act 2006 and in 'The Small Companies and Groups (Accounts and Directors' Reports) Regulations 2008 (SI 2008 No.409).*

## ***Consolidated financial statements***

### *Preparation of consolidated financial statements*

- 20 A parent undertaking, which is not subject to the small companies regime in the UK or which cannot take advantage of the size exemption set out in Irish Law\*, should prepare consolidated financial statements for its group unless it uses one of the exemptions set out in paragraph 21. A parent undertaking subject to the small companies regime in the UK or which can take advantage of the size exemption set out in Irish Law\* may opt to prepare consolidated financial statements. *[From s399, s403 and s398]*

### *Exempt parent undertakings*

- 21 A parent undertaking is exempt from preparing consolidated financial statements for its group on any one of the following grounds.
- (a) The parent undertaking is a wholly-owned subsidiary undertaking and its immediate parent undertaking is established under the law of an EEA State. Exemption is conditional on compliance with certain further conditions set out in section 400(2). A parent undertaking is not exempt if any of its securities are admitted to trading on a regulated market of any EEA State. *[s400]*

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\* An Irish parent company within the scope of the European Communities (Companies: Group Accounts) Regulations 1992 is exempt from the requirement to prepare group accounts if it meets the size and other criteria set out in Regulation 7 of those Regulations. The size criteria in summary require that the parent and subsidiaries together meet two of the following three conditions (i) balance sheet total does not exceed €7,618,428; (ii) turnover does not exceed €15,236,858 and (iii) average number of employees does not exceed 250.

- (b) The parent undertaking is a majority-owned subsidiary undertaking and meets all the conditions for exemption as a wholly-owned subsidiary undertaking set out in section 400(2) as well as the additional conditions set out in section 400(1)(b). *[s400]*
- (c) The parent undertaking is a wholly-owned subsidiary of another undertaking and that parent undertaking is not established under the law of an EEA State. Exemption is conditional on compliance with certain further conditions set out in section 401(2). The exemption does not apply to a parent undertaking if any of its securities are admitted to trading on a regulated market of any EEA State. *[s401]*
- (d) The parent undertaking is a majority-owned subsidiary undertaking and meets all of the conditions for exemption as a wholly-owned subsidiary undertaking set out in section 401(2) as well as the additional conditions set out in section 401(1)(b).
- (e) All of the parent undertaking's subsidiary undertakings are permitted or required to be excluded from consolidation by section 405. (The conditions of exclusion of section 405 are more fully described in paragraph 25 and are elaborated on in paragraphs 76 to 78.) *[s402]*
- 22** The Act and the Regulations set out disclosure requirements for parent companies not required to prepare consolidated financial statements. In addition to providing this information, a parent undertaking making use *[s409, s410, regulation 7 and 4Sch Part 2 of the Regulations]*

of an exemption from preparing consolidated financial statements should state that its financial statements present information about it as an individual undertaking and not about its group. This statement should include or refer to a note giving the grounds on which the parent undertaking is exempt from preparing consolidated financial statements, as required by Schedule 4 10(1) of the Regulations.

*Undertakings to be included in the consolidation*

- 23** As required by the Act, the consolidated financial statements should include the parent undertaking and all its subsidiary undertakings, except those that are required to be excluded under the conditions set out in paragraph 25 below. [s405(1)]

*Disproportionate expense and undue delay*

- 24** Neither disproportionate expense nor undue delay in obtaining the information necessary for the preparation of consolidated financial statements can justify excluding from consolidation subsidiary undertakings that are individually or collectively material in the context of the group. [FRS allows s405(3)(b) exclusion only where the undertaking is not material]

*Subsidiary undertakings to be excluded from consolidation*

- 25** The exclusions required by this paragraph are based on the exclusions permitted by section 405(3). A subsidiary undertaking should be excluded from consolidation where: [s405(3)]
- (a) severe long-term restrictions substantially hinder the exercise of the rights of the parent undertaking over the assets or management of the subsidiary [FRS requires exclusion permitted by s405(3)(a)]

undertaking. The rights referred to are those by reason of which the parent undertaking is defined as such under section 1162 and in the absence of which it would not be the parent undertaking; or

- (b) the interest in the subsidiary undertaking is held exclusively with a view to subsequent resale (as defined in paragraph 11) and the subsidiary undertaking has not previously been consolidated in group accounts prepared by the parent undertaking. *[FRS restricts exclusion permitted by s405(3)(c)]*

- 26** As required by the Act and the Regulations, subject to the conditions and exemptions of section 409 and regulation 7 and Schedule 4 16(1) of the Regulations the names of any subsidiary undertakings excluded from the consolidation and the reasons why they have been excluded should be given. *[s409, regulation 7 and Sch 16(1) of the Regulations]*

*Accounting for excluded subsidiary undertakings*

*Severe long-term restrictions*

- 27** A subsidiary undertaking excluded on the grounds set out in paragraph 25(a) [severe long-term restrictions] should be treated as a fixed asset investment. If restrictions were in force at its acquisition date, the subsidiary undertaking should be carried initially at cost; if restrictions came into force at a later date, the subsidiary undertaking should be carried at a fixed amount calculated using the equity method at that date. While the restrictions are in force, no further accruals should be made for the profits or losses of that subsidiary undertaking, unless the parent undertaking still exercises a significant influence over it. If this is the case, it should treat the subsidiary

undertaking as an associated undertaking using the equity method. The carrying amount of subsidiary undertakings subject to severe long-term restrictions should be reviewed and written down for any impairment in value. When impairment is assessed, each subsidiary undertaking should be considered individually. Any intra-group amounts due from subsidiary undertakings excluded on the grounds of severe long-term restrictions should also be reviewed and written down, if necessary.

- 28** When the severe restrictions cease and the parent undertaking's rights are restored, the amount of the unrecognised profit or loss that accrued during the period of restriction for that subsidiary undertaking should be separately disclosed in the consolidated profit and loss account of the period in which control is resumed. Similarly, any amount previously charged for impairment that needs to be written back as a result of restrictions ceasing should be separately disclosed.

*Held exclusively with a view to subsequent resale*

- 29** A subsidiary undertaking that is excluded from consolidation on the grounds set out in paragraph 25(b) [held exclusively with a view to subsequent resale] should be recorded in the consolidated financial statements as a current asset at the lower of cost and net realisable value.
- 30** Withdrawn

***Disclosures for subsidiary undertakings excluded from consolidation***

*[s409 of the Act and 4Sch 16 of the Regulations]*

- 31 In addition to the disclosures required by virtue of section 409 of the Act and regulation 7 Schedule 4 Parts 1 and 3 of the Regulations, the following information should be given in the consolidated financial statements for subsidiary undertakings not included in the consolidation: *[4Sch 2, 3, 16 and 17 of the Regulations]*
- (a) particulars of the balances between the excluded subsidiary undertakings and the rest of the group;
  - (b) the nature and extent of transactions of the excluded subsidiary undertakings with the rest of the group;
  - (c) for an excluded subsidiary undertaking carried other than by the equity method, any amounts included in the consolidated financial statements in respect of:
    - (i) dividends received and receivable from that undertaking; and
    - (ii) any write-down in the period in respect of the investment in that undertaking or amounts due from that undertaking.
- 32 Disclosures for excluded subsidiary undertakings in general apply to individual excluded subsidiary undertakings. However, if the information about excluded subsidiary undertakings is more appropriately presented for a sub-unit of the group comprising more than one excluded subsidiary undertaking, the disclosures may be made on an aggregate basis.

Any individual sub-unit for these disclosures is to include only subsidiary undertakings excluded under the same sub-paragraph of section 405(3). Individual disclosures should be made for any excluded subsidiary undertaking, including its sub-group where relevant, that alone accounts for more than 20% of any one or more of operating profits, turnover or net assets of the group. The group amounts should be measured by including all excluded subsidiary undertakings.

*Disclosures for principal subsidiary undertakings*

- 33** In addition to the disclosures required by Schedule 4 of the Regulations, the following should be shown for each subsidiary undertaking whose results or financial position principally affects the figures in the consolidated financial statements: *[4Sch of the Regulations]*
- (a) the proportion of voting rights held by the parent and its subsidiary undertakings; and
  - (b) an indication of the nature of its business.

*Disclosure of the basis of dominant influence*

- 34** Where an undertaking is a subsidiary undertaking only because its parent undertaking has the power to exercise, or actually exercises, dominant influence or control over it, the consolidated financial statements should disclose the basis of the parent undertaking's dominant influence or control in addition to the disclosures required, by virtue of section 409 of the Act and, by Schedule 4 paragraph 1 and paragraph 16 of the Regulations. *[4Sch of the Regulations]*

*Minority interests*

- 35** The consolidated balance sheet should show separately the aggregate of the capital and reserves attributable to minority interests at the end of the period under 'Minority interests' in accordance with Schedule 6 paragraph 17(2) of the Regulations. This amount represents the aggregate share of net assets or liabilities of subsidiary undertakings included in the consolidation that are attributable to the minority interests. *[6Sch 17 (2) of the Regulations]*
- 36** The consolidated profit and loss account should show separately the aggregate of profit or loss on ordinary activities for the period attributable to the minority interests under 'Minority interests' in accordance with Schedule 6 paragraph 17(3)(a) of the Regulations. Any extraordinary profit or loss attributable to minority interests should be shown separately in accordance with Schedule 6 paragraph 17(3)(b) of the Regulations. *[6Sch 17(3) of the Regulations]*
- 37** Profits or losses arising in a subsidiary undertaking should be apportioned between the controlling and minority interests in proportion to their respective interests held over the period in which the profits or losses arose. Where the losses in a subsidiary undertaking attributable to the minority interest result in its interest being one in net liabilities rather than net assets, the group should make provision to the extent that it has any commercial or legal obligation (whether formal or implied) to provide finance that may not be recoverable in respect of the accumulated losses attributable to the minority interest.

- 38** Whether the assets and liabilities of a subsidiary undertaking are included at fair values or adjusted carrying amounts\*, those attributable to the minority interest should be included on the same basis as those attributable to the interests held by the parent and its other subsidiary undertakings. However, goodwill arising on acquisition should only be recognised with respect to the part of the subsidiary undertaking that is attributable to the interest held by the parent and its other subsidiary undertakings. No goodwill should be attributed to the minority interest.

### ***Consolidation adjustments***

#### *Intra-group transactions*

- 39** To the extent that they are reflected in the book value of assets to be included in the consolidation, profits or losses on any intra-group transactions should be eliminated in full. Amounts in relation to debts and claims between undertakings included in the consolidation should also be eliminated. The elimination of profits or losses relating to intra-group transactions should be set against the interests held by the group and the minority interest in respective proportion to their
- [FRS requirement in relation to 6Sch of the Regulations. The Regulations allow partial elimination but the FRS requires*

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\* Where the acquisition method of accounting is to be used in consolidating a subsidiary undertaking, Schedule 6 paragraph 9 of the Regulations requires the identifiable assets and liabilities of the undertaking acquired to be included in the consolidation at their fair values as at the date of acquisition.

Where the merger method of accounting is to be used, Schedule 6 paragraph 11 of the Regulations requires the assets and liabilities of the subsidiary undertaking to be consolidated at the amounts at which they stand in that undertaking's financial statements, subject to any adjustments authorised or required by the Act.

holdings in the undertaking whose individual financial statements recorded the eliminated profits or losses.

*elimination in  
full]*

*Accounting policies*

- 40 Subject to paragraph 41 below, uniform group accounting policies should be used for determining the amounts to be included in the consolidated financial statements, if necessary by adjusting for consolidation the amounts which have been reported by subsidiary undertakings in their individual financial statements.

*[6Sch 3(1) of  
the  
Regulations]*

- 41 In exceptional cases, different accounting policies may be used. Where the directors of the parent undertaking depart from the Regulations general requirement to use the same group accounting rules to value or otherwise determine the assets and liabilities to be included in the consolidated financial statements, Schedule 6 paragraph 3(2) of the Regulations requires disclosure of the particulars, which should include the different accounting policies used.

*[6Sch 3(2) of  
the  
Regulations]*

*Accounting periods and dates*

- 42 The financial statements of all subsidiary undertakings to be used in preparing the consolidated financial statements should, wherever practicable, be prepared to the same financial year end and for the same accounting period as those of the parent undertaking of the group.

- 43 Where the financial year of a subsidiary undertaking differs from that of the parent undertaking of the group, interim financial statements should be prepared to the same date as those of the parent undertaking of the group for use in the preparation of the consolidated financial statements. If it is not practicable to use such interim financial statements, the financial statements of the subsidiary undertaking for its last financial year should be used, providing that year ended not more than three months before the relevant year end of the parent undertaking of the group. In this case any changes that have taken place in the intervening period that materially affect the view given by the group's financial statements should be taken into account by adjustments in the preparation of the consolidated financial statements.
- [FRS preference of alternatives permitted by 6Sch 2(2) of the Regulations]*
- 44 The following information should be given for each subsidiary undertaking which is included in the consolidated financial statements on the basis of information prepared to a different date or for a different accounting period from that of the parent undertaking of the group:
- (a) the name of the subsidiary undertaking;
  - (b) the accounting date or period of the subsidiary undertaking; and
  - (c) the reason for using a different accounting date or period for the subsidiary undertaking.

## ***Changes in composition of a group***

### *Date of changes in group membership*

- 45 The date for accounting for an undertaking becoming a subsidiary undertaking is the date on which control of that undertaking passes to its new parent undertaking. This date is the date of acquisition for Schedule 6 paragraph 9 of the Regulations or the date of merger. The date for accounting for an undertaking ceasing to be a subsidiary undertaking is the date on which its former parent undertaking relinquishes its control over that undertaking.

### *Ceasing to be a subsidiary undertaking*

- 46 When an undertaking ceases to be a subsidiary undertaking during a period, the consolidated financial statements for that period should include the results of that subsidiary undertaking up to the date that it ceases to be a subsidiary undertaking and any gain or loss arising on that cessation, to the extent that these have not been already provided for in the consolidated financial statements.
- 47 The gain or loss directly arising for the group on an undertaking ceasing to be its subsidiary undertaking is calculated by comparing the carrying amount of the net assets of that subsidiary undertaking attributable to the group's interest before the cessation with any remaining carrying amount attributable to the group's interest after the cessation together with any proceeds received. The net assets compared should include any related goodwill that has not previously been either written off through the profit and loss account or attributed to prior period amortisation or

impairment on applying paragraph 70 of FRS 10 *Goodwill and Intangible Assets*. This calculation of gain or loss applies whether the cause of the undertaking ceasing to be a subsidiary undertaking is a direct disposal, a deemed disposal or other event.

- 48** In addition to the disclosures required by Schedule 6 paragraph 15 of the Regulations, the consolidated financial statements should give the name of any material undertaking that has ceased to be a subsidiary undertaking in the period, showing any ownership interest retained. Where any material undertaking has ceased to be a subsidiary undertaking other than by the disposal of at least part of the interest held by the group, the circumstances should be explained. *[6Sch 15 of the Regulations]*

*Becoming or ceasing to be a subsidiary undertaking other than by a purchase or exchange of shares*

- 49** Where an undertaking has become or ceased to be a subsidiary undertaking other than as a result of a purchase or exchange of shares, the circumstances should be explained in a note to the consolidated financial statements.

### ***Changes in stake***

*Acquiring a subsidiary undertaking in stages*

- 50** Schedule 6 paragraph 9 of the Regulations requires that the identifiable assets and liabilities of a subsidiary undertaking be included in the consolidation at fair value at the date of its acquisition, that is, the date it becomes a subsidiary undertaking. This requirement is also applicable where the group's interest in the *[6Sch 9 of the Regulations]*

undertaking that becomes a subsidiary undertaking is acquired in stages.

*Increasing an interest held in a subsidiary undertaking*

- 51 When a group increases its interest in an undertaking that is already its subsidiary undertaking, the identifiable assets and liabilities of that subsidiary undertaking should be revalued to fair value and goodwill arising on the increase in interest should be calculated by reference to those fair values. This revaluation is not required if the difference between net fair values and carrying amounts of the assets and liabilities attributable to the increase in stake is not material.

*Reducing an interest held in a subsidiary undertaking*

- 52 Where a group reduces its interest in a subsidiary undertaking, it should record any profit or loss arising calculated as the difference between the carrying amount of the net assets of that subsidiary undertaking attributable to the group's interest before the reduction and the carrying amount attributable to the group's interest after the reduction together with any proceeds received. The net assets compared should include any related goodwill not previously written off through the profit and loss account. Where the undertaking remains a subsidiary undertaking after the disposal, the minority interest in that subsidiary undertaking should be increased by the carrying amount of the net identifiable assets that are now attributable to the minority interest because of the decrease in the group's interest. No amount for goodwill that arose on acquisition

of the group's interest in that subsidiary undertaking should be attributed to the minority interest.

### ***Distributions***

#### *Restrictions on distribution*

- 53 Where significant statutory, contractual or exchange control restrictions on distributions by subsidiary undertakings materially limit the parent undertaking's access to distributable profits, the nature and extent of the restrictions should be disclosed.

#### *Tax on the accumulated reserves of overseas subsidiary undertakings*

- 54 Withdrawn.

### ***Date from which effective***

- 55 The accounting practices set out in this statement should be adopted as soon as possible and regarded as standard in respect of consolidated financial statements relating to periods ending on or after 23 December 1992 except for those companies considered below. The accounting practices in this statement should be adopted by Republic of Ireland companies as soon as possible after the enactment of the Irish legislation implementing the European Community Seventh Directive and regarded as standard in respect of consolidated financial statements for periods specified in the date of application of that legislation

- 55A** In 2009\* the FRS was amended to update the legal references following the introduction of the Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Report) Regulations 2000 (SI 2008 No. 410). The amendments take effect for accounting periods beginning on or after 6 April 2008 or when the provisions of the Act and/or the Regulations are applied to other entities (eg limited liability partnerships), if later.

***Withdrawal of SSAP 14 ‘Group accounts’ and ‘Interim Statement: Consolidated Accounts’***

- 56** [Not reproduced]

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\* The FRS was also amended in December 2004 to reflect changes to the Companies Act 1985 introduced by the Companies Act 1985 (International Accounting Standards and Other Accounting Amendments) Regulations 2004 (SI 2004 No. 2947). The amendments took effect for accounting periods beginning on or after 1 January 2005.

***Financial Reporting Standard No. 2 ‘Accounting for Subsidiary Undertakings’ was adopted by the unanimous vote of the nine members of the Accounting Standards Board***

***Members of the Accounting Standards Board***

David Tweedie (Chairman)  
Allan Cook (Technical Director)  
Robert Bradfield  
Sir Bryan Carsberg  
Elwyn Eilledge  
Michael Garner  
Donald Main  
Roger Munson  
Graham Stacy

**ADOPTION OF AMENDMENT TO FRS 2 BY THE ACCOUNTING STANDARDS BOARD (DECEMBER 2004)**

Amendment to Financial Reporting Standard 2 ‘Accounting for Subsidiary Undertakings: Legal Changes’ was approved for issue by the ten members of the Accounting Standards Board.

Ian Mackintosh (Chairman)  
Andrew Lennard (Technical Director)  
Michael Ashley  
Douglas Flint  
Anthony Good  
Roger Marshall  
Isobel Sharp  
John Smith  
Jonathan Symonds  
Peter Westlake

**ADOPTION OF AMENDMENT TO FRS 2 BY THE  
ACCOUNTING STANDARDS BOARD (JUNE 2009)**

Amendment to Financial Reporting Standard 2 ‘Accounting for  
Subsidiary Undertakings: Legal Changes’ was approved for issue  
by the eleven members of the Accounting Standards Board.

Ian Mackintosh (Chairman)  
David Loweth (Technical Director)  
Nick Anderson  
Michael Ashley  
Edward Beale  
Marisa Cassoni  
Peter Elwin  
Ken Lever  
Robert Overend  
Andy Simmonds  
Professor Geoffrey Whittington CBE

## COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

- 57 Compliance with the amended FRS ensures substantial compliance with the relevant provisions of International Accounting Standard 27 *Consolidated and Separate Financial Statements* (IAS 27). However, IAS 27;
- (a) does not include an exemption from consolidation for subsidiaries where severe long-term restrictions exist;
  - (b) does not exempt subsidiaries that are held exclusively with a view to resale. International Financial Reporting Standard (IFRS) 5 *Non-current Assets Held for Sale and Discounted Operations* requires newly acquired subsidiaries held for sale to be measured at the lower of carrying value and fair value less costs to sell; the assets and liabilities of the subsidiary may not be offset and should be presented separately from other assets and liabilities in the balance sheet\*;
  - (c) specifies that changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners);
  - (d) does not require assets and liabilities of a subsidiary undertaking to be revalued to fair value when a group increases its interest in an undertaking that is already a subsidiary undertaking;
  - (e) specifies any investment retained in the former subsidiary be recognised at its fair value at the date when control is lost; and

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\* The assets and liabilities of the newly acquired subsidiary held for sale may be presented together with the assets and liabilities of any other assets or disposal groups held for sale by the entity.

- (f) does not provide exemption from producing consolidated financial statements except where the ultimate or any immediate parent of the parent produces consolidated financial statements available for public use that comply with International Financial Reporting Standards.

**58** Withdrawn.

## **EXPLANATION**

The legal references in the Explanation of the FRS have been amended to take account of the Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. References are to the Companies Act 2006 unless otherwise specified.

### *The purpose of consolidated financial statements*

- 59 For a variety of legal, tax and other reasons, undertakings generally choose to conduct their activities not through a single legal entity but through several undertakings under the ultimate control of the parent undertaking of that group. For this reason the financial statements of a parent undertaking by itself do not present a full picture of its economic activities or financial position. Consolidated financial statements are required in order to reflect the extended business unit that conducts activities under the control of the parent undertaking.

### *The legal background to the FRS*

- 60 In the United Kingdom the preparation of consolidated financial statements for companies is governed by the Act. This implements the provisions of the European Community Seventh Directive. The FRS is drafted to be consistent with the Act, supplementing it with guidance on its application and additional requirements where necessary. The definitions and statement of standard accounting practice contain marginal notes that give references to the Act where these are relevant. The application of the FRS in the Republic of Ireland is explained in the section on the legal requirements in the Republic of Ireland (paragraph 98).

*Parent undertakings not subject to the Act*

- 61** The FRS is drafted in terms derived from the Act but applies to all parent undertakings that prepare financial statements intended to give a true and fair view. A parent undertaking not subject to the Act should comply with the requirements of the FRS, and of the Act where referred to in the FRS, except to the extent that these requirements are not permitted by any statutory framework under which the undertaking reports. By reference to the Act, which in most cases accords with requirements the FRS might otherwise introduce itself in respect of such undertakings, the FRS achieves a single set of requirements relating to the preparation of consolidated financial statements both for companies that report under the Act and for other undertakings.

*The relationship between the legal background and accounting principles*

- 62** The accounting concept that underlies the presentation of consolidated financial statements for a group as a single economic entity is summarised in the definition of control in paragraph 6. Although the definitions of parent and subsidiary undertakings in the Act are founded mainly on the accounting concept of control, section 1162 uses a list of tests, including control, to determine which undertakings are parent and subsidiary undertakings. In the main, the effect of applying the tests in the Act is the same as using a criterion based solely on the accounting concept of control. There may, however, be cases where section 1162 identifies more than one undertaking as the parent undertaking of the same subsidiary undertaking. Where more than one undertaking is thereby identified as a parent of one subsidiary undertaking, not more than one of those parents can have control as defined in paragraph 6.
- 63** In practice, such apparent differences between the effects of applying the Act and the Standard can generally be resolved by taking into account the following factors:

- (a) the existence of a quasi-subsidiary (paragraph 64); or
- (b) the existence of severe long-term restrictions on the rights of the parent undertaking (paragraph 65); or
- (c) the existence of a joint venture agreement, whether formal or informal (paragraphs 66 and 67).

**64** Undertakings that are directly or indirectly controlled by another undertaking and are sources of benefit to that other, but do not qualify according to the tests in the Act as subsidiary undertakings, are described as ‘quasi-subsidiaries’. The definition and treatment of quasi-subsidiaries are not dealt with in this Standard\*.

**65** The Act allows a subsidiary undertaking to be excluded from consolidation if the parent undertaking suffers severe long-term restrictions that substantially hinder the exercise of its rights over the assets or management of the subsidiary undertaking. Paragraph 78(c) discusses severe long-term restrictions further.

**66** The control that identifies undertakings as parent and subsidiary undertakings should be distinguished from shared control, for example, as in a joint venture. It is the parent undertaking’s sole control of its subsidiary undertakings that gives it access to its subsidiary undertakings’ resources. The parent undertaking extends its economic activities through its subsidiary undertakings using their assets and liabilities in a similar way to its own. The ability of an undertaking that shares control to direct the operating and financial policies of the undertaking in which control is shared is circumscribed by the need to take account of the wishes of the other parties that share control. An undertaking identified as a parent by section 1162 that shares control over its subsidiary undertaking may be suffering from

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\* See FRS 5 ‘Reporting the Substance of Transactions’.

severe long-term restrictions, as discussed in paragraph 78(c), in relation to the undertaking in which it shares control.

- 67** Where the tests of the Act identify more than one undertaking as the parent of one subsidiary undertaking it is likely that they have shared control and, therefore, their interests in the subsidiary undertaking are in effect interests in a joint venture and should be treated accordingly. Alternatively, one or more of the undertakings identified under the Act as a parent undertaking may exercise a non-controlling but significant influence over its subsidiary undertaking, in which case it would be more appropriate to treat that subsidiary undertaking in the same way as an associated undertaking rather than to include it in the consolidation.

*Identifying parent and subsidiary undertakings*

- 68** Parent and subsidiary undertakings are defined in the FRS by applying the provisions of section 1162, which are repeated in an abbreviated form in paragraph 14 of the FRS. In addition, the FRS defines some of the phrases that are used in the Act to define undertakings that are parent or subsidiary undertakings. Paragraphs 69-74 below consider some of the terms used.

*Dominant influence*

- 69** The Act uses ‘dominant influence’ as a key phrase in two of the conditions of section 1162 that identify parent and subsidiary undertakings.
- 70** Section 1162(2)(c) identifies an undertaking as a parent undertaking if it has the right to exercise a dominant influence over another undertaking:
- (a) by virtue of provisions contained in the undertaking’s memorandum or articles; or
  - (b) by virtue of a control contract.

Schedule 7 paragraph 4(1) states that for the purposes of section 1162(2)(c) ‘an undertaking shall not be regarded as having the right to exercise a dominant influence over another undertaking unless it has a right to give directions with respect to the operating and financial policies of that other undertaking which its directors are obliged to comply with whether or not they are for the benefit of that other undertaking’. This forms the basis of the definition set out in paragraph 7(a) of the FRS. In the United Kingdom, directors are bound by a duty to promote the success of the company for the benefit of its members as a whole (section 172 of the Act). For this reason there may, in some cases, be a risk that accepting a right to exercise dominant influence, as here defined, would be in breach of the above duty.

- 71 In a second reference to dominant influence, section 1162(4)(a) identifies an undertaking as the subsidiary undertaking of another (its parent undertaking) if that other has the power to exercise, or actually exercises, dominant influence over it. Schedule 7 paragraph 4(3) provides that the definition of the ‘right to exercise a dominant influence’ for the purposes of section 1162(2)(c) shall not affect the construction of ‘actually exercises a dominant influence’ in section 1162(4)(a). The FRS defines the ‘actual exercise of dominant influence’ as the exercise of an influence that achieves the result that the operating and financial policies of the undertaking influenced are set in accordance with the wishes of the holder of the influence and for its benefit (whether or not those wishes are explicit). The FRS defines ‘the power to exercise dominant influence’ as a power that, if exercised, would give rise to the actual exercise of dominant influence.
- 72 As indicated in paragraph 7(b) of the FRS, the actual exercise of dominant influence is identified by its effect in practice rather than the means by which it is exercised. The effect of the exercise of dominant influence is that the undertaking under influence implements the operating and financial policies that the holder of the influence desires. Thus, a power of veto, or any other reserve power that has the

necessary effect in practice, can form the basis whereby one undertaking actually exercises a dominant influence over another. However, such powers are likely to lead to the holder actually exercising a dominant influence over an undertaking only if they are held in conjunction with other rights or powers or if they relate to the day-to-day activities of that undertaking and no similar veto is held by other parties unconnected to the holder. The full circumstances of each case should be considered, including the effect of any formal or informal agreements between the undertakings, to decide whether or not one undertaking actually exercises a dominant influence over another. Commercial relationships such as that of supplier, customer or lender do not of themselves constitute dominant influence.

- 73** A parent undertaking may actually exercise its dominant influence in an interventionist or non-interventionist way. For example, a parent undertaking may set directly and in detail the operating and financial policies of its subsidiary undertaking or it may prefer to influence these by setting out in outline the kind of results it wants achieved without being involved regularly or on a day-to-day basis. Because of the variety of ways that dominant influence may be exercised, evidence of continuous intervention is not necessary to support the view that dominant influence is actually exercised. Sufficient evidence might be provided by a rare intervention on a critical matter. Once there has been evidence that one undertaking has exercised a dominant influence over another, then the dominant undertaking should be assumed to continue to exercise its influence until there is evidence to the contrary. However, it is still necessary for the preparation of the consolidated financial statements to examine the relationship between the undertakings each year to assess any evidence of change in status that may have arisen.

*Managed on a unified basis*

- 74** Section 1162(4)(b) identifies an undertaking as a parent undertaking of another undertaking (its subsidiary

undertaking) if it and that other undertaking are managed on a unified basis. Undertakings are managed on a unified basis if the whole of the operations of the undertakings are integrated and they are managed as a single unit. Unified management does not arise solely because one undertaking manages another because this may not fulfil the condition that the operations of the undertakings are integrated.

*Preparation of consolidated financial statements*

- 75** The requirements of the FRS apply to all parent undertakings that prepare consolidated financial statements intended to give a true and fair view of the financial position and profit or loss of the group. In giving such a view, the same accounting principles apply in general to consolidated financial statements as would apply to the financial statements of a single entity. Parent undertakings should comply with the requirements of the FRS in preparing consolidated financial statements giving a true and fair view, even if the parent undertaking is not specifically required to prepare consolidated financial statements.

*Exclusion of subsidiary undertakings from consolidation*

- 76** The Act requires that all the subsidiary undertakings of a parent undertaking are to be included in the consolidated financial statements for that group, subject to the exemptions permitted by section 405(2) and (3). The circumstances in which the Act permits a subsidiary undertaking to be excluded from consolidation are the following:
- (a) ‘if its inclusion is not material for the purpose of giving a true and fair view (but two or more undertakings may be excluded only if they are not material taken together)’; or
  - (b) ‘where the information necessary for the preparation of group accounts cannot be obtained without disproportionate expense or undue delay’; or

- (c) 'where severe long-term restrictions substantially hinder the exercise of the rights of the parent company over the assets or management of that undertaking'; or
- (d) 'where the interest of the parent company is held exclusively with a view to subsequent resale'.

77 Within this statutory framework, the FRS elaborates on the conditions for exclusion set out in the Act so that these identify, as far as possible, only those undertakings, defined as subsidiary undertakings by section 1162, that are not controlled by their parent undertaking in a way that would in principle justify consolidation. This gives effect to the Board's view that a parent undertaking should consolidate all those undertakings that are its subsidiary undertakings unless there are circumstances that make consolidation inappropriate. Under the circumstances set out in paragraph 78(c) and (d) below, the FRS requires the parent undertaking to exclude a subsidiary undertaking because the same conditions that justify permitting exclusion of a subsidiary undertaking also make consolidation of that undertaking inappropriate. Exclusion from consolidation is not the only way of clarifying the effect on the group of the circumstances affecting some of its subsidiary undertakings; exclusion should only be used exceptionally. In many cases, circumstances such as restrictions or activities with special risks are better dealt with by disclosure, for example, by giving additional segmental information rather than by exclusion from consolidation of the subsidiary undertakings concerned.

78 In order to help preparers identify the exceptional circumstances where it is inappropriate to consolidate a subsidiary undertaking, the exclusions allowed by section 405(2) and (3) are discussed below.

*Materiality*

- (a) The FRS deals only with material items. Thus, this ground for exclusion requires no special mention in the FRS. The Act only allows exclusion for two or more

subsidiary undertakings if they are not material taken together.

*Disproportionate expense and undue delay*

- (b) In principle, neither expense nor delay can justify excluding from consolidation subsidiary undertakings that are individually or collectively material in the context of the group.

*Severe long-term restrictions*

- (c) Restrictions are only relevant to justify the exclusion of a subsidiary undertaking from consolidation if the restrictions substantially hinder the exercise of the rights of the parent undertaking over the assets or management of the subsidiary undertaking. The rights affected must be those by reason of which the undertaking holding them is the parent undertaking and without which it would not be the parent undertaking. Severe long-term restrictions justify excluding a subsidiary undertaking from consolidation only where the effect of those restrictions is that the parent undertaking does not control its subsidiary undertaking. Severe long-term restrictions are identified by their effect in practice rather than by the way in which the restrictions are imposed. For example, a subsidiary undertaking should not be excluded because restrictions are threatened or because another party has the power to impose them, unless such threats or the existence of such a power has a severe and restricting effect in practice in the long-term on the rights of the parent undertaking. Generally, restrictions are dealt with better by disclosure than by non-consolidation. However, the loss of the parent undertaking's control over its subsidiary undertaking resulting from severe long-term restrictions would make it misleading to include that subsidiary undertaking in the consolidation. Where a subsidiary undertaking is subject to an insolvency procedure in the United Kingdom, control over that undertaking may have passed to a designated official (for example, an administrator, administrative

receiver or liquidator) with the effect that severe long-term restrictions are in force. A company voluntary arrangement does not necessarily lead to loss of control. In some overseas jurisdictions even formal insolvency procedures may not amount to loss of control.

*Interest held exclusively with a view to subsequent resale*

- (d) This exclusion applies only to those undertakings that have never formed a continuing part of group activities and have not previously been included in consolidated financial statements prepared by the parent undertaking. Paragraph 11 defines the two sets of circumstances in which an interest in a subsidiary undertaking is considered to be held exclusively with a view to subsequent resale. The first set of circumstances (paragraph 11(a)) depends on an immediate intention to sell and the expectation of a sale within approximately one year. An interest for which a sale is not completed within a year of its acquisition may still fulfil the conditions of paragraph 11(a) if, at the date the accounts are signed, the terms of the sale have been agreed and the process of disposing of that interest is substantially complete. The second set of circumstances (paragraph 11(b)) depends on the way in which the interest was acquired, that is, whether it was acquired as a result of the enforcement of a security. The provisions of Schedule 7 paragraph 8(b) may be relevant in determining whether such an interest has been acquired. This paragraph provides that rights attached to shares held as a security are to be treated as held by the person providing the security, where the shares are held in connection with the granting of loans as part of normal business activities and, apart from the right to exercise them to preserve the value of the security or to realise it, the rights are exercisable only in the interests of the provider of the security.

**79** *Treatment of excluded subsidiary undertakings**Severe long-term restrictions*

- (a) Where severe long-term restrictions are in force so that a subsidiary undertaking is no longer under the control of its parent undertaking, that subsidiary undertaking should not be consolidated. From the date severe long-term restrictions come into force and until they are lifted, the subsidiary undertaking subject to the restrictions should be excluded from consolidation and treated instead as a fixed asset investment. If restrictions are in force when the subsidiary undertaking is acquired, it should be carried initially at cost; if restrictions came into force at a later date, the subsidiary undertaking should be carried at a fixed amount calculated using the equity method as at the date the restrictions came into force. If, in spite of severe long-term restrictions, the parent undertaking retains significant influence over a subsidiary undertaking, the investment should be treated as an associated undertaking using the equity method. Because severe long-term restrictions may give rise to impairment, the FRS requires the value of the excluded subsidiary undertaking to be reviewed to assess whether any impairment has occurred. Any intra-group amounts due from such excluded subsidiary undertakings may also be affected by severe long-term restrictions, particularly if the restrictions extend to remittances. These balances should also be reviewed and provision made as necessary.

*Held exclusively for resale*

- (b) A subsidiary undertaking held exclusively for resale and not previously included in the consolidated financial statements of the parent undertaking does not form part of the continuing activities of the group. Although the parent undertaking (as identified by section 1162 and paragraph 14 of the FRS) may control such a subsidiary undertaking, its control is temporary and is not used to deploy the underlying assets and liabilities of that subsidiary undertaking as part of the continuing group's

activities for the benefit of the parent undertaking of the group. The subsidiary undertaking is therefore excluded from consolidation and the temporary nature of the parent undertaking's interest is recognised by carrying it as a current asset at the lower of cost and net realisable value.

(c) Withdrawn.

*Intra-group guarantees re excluded subsidiary undertakings*

(d) Liabilities to third parties of one group member guaranteed by another are themselves included in the consolidated financial statements so that intra-group guarantees do not normally require disclosure. Guarantees in respect of subsidiary undertakings excluded from consolidation have to be treated in the same way as guarantees given by members of the group to third parties because, in these cases, the intra-group guarantees relate to liabilities that are not included gross in the consolidated financial statements.

*Minority interests*

**80** Despite the title 'Minority interests', there is, in principle, no upper limit to the proportion of shares in a subsidiary undertaking which may be held as a minority interest while the parent undertaking still qualifies as such under section 1162 of the Act (described in paragraph 14 of the FRS). The amounts reported in the consolidated balance sheet and profit and loss account for the minority interests indicate the extent to which the assets and liabilities and profits and losses of subsidiary undertakings included in the consolidation are attributable to shareholders other than the parent or its other subsidiary undertakings. The effect of the existence of minority interests on the returns to investors in the parent undertaking is best reflected by presenting the net identifiable assets attributable to minority interests on the same basis as those attributable to group interests. Using the same basis for including group assets and liabilities, irrespective of the extent to which they are attributable to

the minority interest, presents the assets and liabilities on a consistent basis for the group as a whole.

- 81** The FRS requires that losses be attributed to the minority interest in a loss making subsidiary undertaking, regardless of whether or not this leads to a debit balance for the minority interest; to do otherwise would obscure the comparison between the assets and liabilities and results attributable to the minority interest and those attributable to the group interests both during the periods when the accumulated losses accrue and afterwards, if these are then made good by later profits. Accumulated losses of subsidiary undertakings do not of themselves necessarily require funding by the parent undertaking and a debit balance for minority interests represents net liabilities attributable to the shares held by the minorities in that subsidiary undertaking rather than a debt due from them. The group should provide for any commercial or legal obligation (whether formal or implied) to provide finance that may not be recoverable in respect of the accumulated losses attributable to the minority interests. Provisions of this sort would include the minorities' share of any liability guaranteed by the group, or any liability that the group itself would be likely to settle for commercial or other reasons, if the subsidiary undertaking could not do so itself. Any provision made with respect to minority debit balances should be set directly against the minority interest amount in the profit and loss account and the balance sheet.
- 82** The FRS requires that the goodwill arising on acquisition of a subsidiary undertaking that is not wholly owned should be recognised only in relation to the group's interest and that none should be attributed to the minority interest. Although it might be possible to estimate by extrapolation or valuation an amount of goodwill attributable to the minority when a subsidiary undertaking is acquired, this would in effect recognise an amount for goodwill that is hypothetical because the minority is not a party to the transaction by which the subsidiary undertaking is acquired.

*Consolidation adjustments and intra-group transactions*

- 83** Presenting information about the economic activities of the group as a single economic entity in consolidated financial statements requires adjustment for intra-group transactions of the amounts reported in the individual financial statements of the parent and its subsidiary undertakings. Intra-group transactions may result in a profit or loss that is included at least temporarily in the book value of group assets. To the extent that such assets are still held in the undertakings included in the consolidation at the balance sheet date, the related profits or losses recorded in the individual financial statements have not arisen for the group as a whole and must therefore be eliminated from group results and asset values. The elimination should be in full, even where the transactions involve subsidiary undertakings with minority interests. Transactions between undertakings included in the consolidation deal with the assets and liabilities that are wholly within the group's control, even if they are not wholly owned. From the perspective of the group as a single entity no profit or loss arises on intra-group transactions because no increase or decrease in the group's net assets has occurred. Profits or losses arising on transactions with undertakings excluded from consolidation because they are held exclusively with a view to subsequent re-sale or because of severe long-term restrictions need not be eliminated, except to the extent appropriate where significant influence is retained and the subsidiary undertaking is treated as an associated undertaking. However, it is important to consider whether it is prudent to record any profit arising from transactions with subsidiary undertakings excluded on these grounds.

*Changes in composition of a group*

- 84** The date on which an undertaking becomes or ceases to be another undertaking's subsidiary undertaking marks the point at which a new accounting treatment for that undertaking is applied. The relevant date is the date on which control passes and paragraph 45 of the FRS is framed

in these terms. This date should also be the one on which an undertaking begins or ceases to qualify as a parent or subsidiary undertaking under section 1162. The date on which control passes is a matter of fact and cannot be backdated or otherwise altered.

- 85** Where control is transferred by a public offer, the date control is transferred is the date the offer becomes unconditional, usually as a result of a sufficient number of acceptances being received. For private treaties, the date control is transferred is generally the date an unconditional offer is accepted. Where an undertaking becomes or ceases to be a subsidiary undertaking as a result of the issue or cancellation of shares, the date control is transferred is the date of issue or cancellation. The date that control passes may be indicated by the acquiring party commencing its direction of the operating and financial policies of the acquired undertaking or by changes in the flow of economic benefits. The date on which the consideration for the transfer of control is paid is often an important indication of the date on which a subsidiary undertaking is acquired or disposed of. However, the date the consideration passes is not conclusive evidence of the date of the transfer of control because this date can be set to fall on a date other than that on which control is transferred, with compensation for any lead or lag included in the consideration. Consideration may also be paid in instalments.
- 86** An undertaking may cease to be a subsidiary undertaking as a result of the parent undertaking losing control over it because of changes in the rights it holds or in those held by another party in that subsidiary undertaking. A parent undertaking may also lose control of its subsidiary undertaking because of changes in some other arrangement that gave it control without there being any change in the former parent undertaking's holding in its former subsidiary undertaking. For example, control may pass if there is a change in voting rights or in how these are allocated. In these circumstances neither a gain nor a loss accrues in the consolidated financial statements, unless there is a payment

for the transfer of control, because there is no change in the net assets attributable to the group's holding in the former subsidiary undertaking. The assets and liabilities of the former subsidiary undertaking should cease to be consolidated but should be shown instead as an associated undertaking or investment as appropriate.

- 87** An undertaking usually ceases to be a subsidiary undertaking because the group reduces its proportional interest in that undertaking. The reduction of the group's interest may result from its directly disposing of part of the interest it holds or from a deemed disposal. Any reduction in the group's proportional interest other than by a direct disposal is a deemed disposal. Disposals and deemed disposals may give rise to profits or losses for the group, which should be calculated as set out in paragraph 47. There may be other losses or gains that arise for the group as a result of an undertaking ceasing to be a subsidiary undertaking. These are not part of the direct gain or loss described here, but may need to be provided for if they are quantifiable or otherwise disclosed to show the full effect of the cessation. Deemed disposals may arise where the group's interest in a subsidiary undertaking is reduced, *inter alia*:
- (a) because the parent undertaking and its group do not take up their full allocation of rights in a rights issue; or
  - (b) because the parent undertaking and its group do not take up their full share of scrip dividends while other equity holders in that subsidiary undertaking take up some, at least, of their share; or
  - (c) because another party has exercised its options or warrants; or
  - (d) because the subsidiary undertaking has issued shares to parties other than the parent undertaking and its group.

*Changes in stake*

- 88** When an undertaking is first consolidated, its identifiable assets and liabilities are initially brought into the consolidation at their fair values at the date of its acquisition as a subsidiary undertaking (the acquisition method of accounting as provided by Schedule 6 paragraph 9 of the Regulations). Where a subsidiary undertaking is acquired in stages, its net identifiable assets and liabilities are to be included in the consolidation at their fair values on the date it becomes a subsidiary undertaking, rather than at the date of the earlier purchases. Using other methods to compute the amounts to be included in the consolidation would fail to give a full picture of the assets and liabilities acquired that now comprise part of the group's resources.
- 89** The effect of the Schedule 6 paragraph 9 of the Regulations' method of acquisition accounting is to treat as goodwill, or negative goodwill, the whole of the difference between, on the one hand, the fair value at the date an undertaking becomes a subsidiary undertaking of the group's share of its identifiable assets and liabilities and, on the other hand, the total acquisition cost of the interests held by the group in that subsidiary undertaking. This applies even where part of the acquisition cost arises from purchases of interests at earlier dates. In the generality of cases this method provides a practical means of applying acquisition accounting because it does not require retrospective assessments of the fair values of the identifiable assets and liabilities of the acquired undertaking. In special circumstances, however, not using fair values at the dates of earlier purchases while using an acquisition cost part of which relates to earlier purchases, may result in accounting that is inconsistent with the way the investment has been treated previously and, for that reason, may fail to give a true and fair view. For example, an undertaking that has been treated as an associated undertaking by a group may then be acquired by that group as a subsidiary undertaking. Using the method required by Schedule 6 paragraph 9 of the Regulations to calculate goodwill on such an acquisition has the effect that

the group's share of profits or losses and reserve movements of its associated undertaking becomes reclassified as goodwill (usually negative goodwill). A similar problem may arise where the group has substantially restated its investment in an undertaking that subsequently becomes its subsidiary undertaking. For example, where such an investment has been written down because it is impaired, the effect of applying the Schedule 6 paragraph 9 of the Regulations' method of acquisition accounting would be to increase reserves and create an asset (goodwill). In the rare cases where the Schedule 6 paragraph 9 of the Regulations' calculation of goodwill would be misleading, goodwill should be calculated as the sum of goodwill arising from each purchase of an interest in the relevant undertaking adjusted as necessary for any subsequent impairment. Goodwill arising on each purchase should be calculated as the difference between the cost of that purchase and the fair value at the date of that purchase of the identifiable assets and liabilities attributable to the interest purchased. The difference between the goodwill calculated on this method and that calculated on the method provided by the Act is shown in reserves. Section 404(5) sets out the disclosures required in cases where the statutory requirement is not applied.

- 90** Where a group increases its stake in an undertaking that is already its subsidiary undertaking, the consideration paid may not be equal to the fair value of the identifiable assets and liabilities previously attributed to the minority and now acquired from the minority. If the assets and liabilities were not revalued to fair values before calculating the goodwill arising on the change in stake, then the difference between the consideration paid and the relevant proportion of the carrying value of net assets acquired would be made up in part of goodwill and in part of changes in value. The FRS requires that the assets and liabilities of the subsidiary undertaking be revalued to fair value at the date of the increase in stake unless the difference between the fair values and the carrying amounts of the share of net assets acquired is not material.

- 91** Where the group decreases its stake in an undertaking whether or not it continues to be a subsidiary undertaking, a profit or loss generally arises. Consolidated financial statements are prepared from the perspective of investors in the parent undertaking of the group. Where the group disposes of part of its interest in a subsidiary undertaking, it transacts directly with third parties and a profit or loss for the group arises and is reported in the consolidated financial statements. This can be contrasted with the treatment of intra-group transactions where no profit or loss arises for the group as a whole because the transaction involves only undertakings included in the consolidation and under common control and does not directly involve any third party.

*Distributions*

- 92** Withdrawn.

*Disclosures*

- 93** The FRS refers to the disclosure requirements of the Act and the Regulations and, where appropriate, adds further disclosure requirements of its own. By referring to certain of the disclosure requirements in the Act and the Regulations in the text of the statement of standard accounting practice, the FRS extends these disclosure requirements to parent undertakings not subject to the Act. Requirements of the Act and the Regulations are identified by section, regulation or schedule numbers; reference to the Act and the Regulations is necessary to ascertain the full disclosures required.

*Segmental information*

- 94** Segmental information has a particular importance in group financial reporting. The aggregation and adjustments required to consolidate financial information for the parent undertaking and its subsidiary undertakings may obscure information about the different undertakings and activities

included in the consolidated financial statements. The information about the separate group activities that may be obscured by consolidation can be restored by giving information about the group on a segmental basis. Parent undertakings should consider how to provide segmental information for their group, indicating the different risks and rewards, growth and prospects of the different parts of the group and treating the requirements of SSAP 25 'Segmental reporting' as a minimum rather than a limit to disclosure. Two examples of how segmental information could supplement consolidated financial statements are given below.

*Segmentation rather than exclusion for certain subsidiary undertakings*

- (a) Where the FRS discusses excluding subsidiary undertakings from consolidation, it stresses the importance of the completeness of the information presented in the consolidated financial statements. Thus, where subsidiary undertakings engage in different activities or are subject to certain restrictions that are not such as to require exclusion from consolidation under the FRS, the most complete picture is presented by consolidating the subsidiary undertakings concerned and giving additional information or by identifying the assets, liabilities and results attributable to undertakings engaging in those activities or subject to those restrictions.

*Minority interests*

- (b) Users of consolidated financial statements who are interested in assessing the effect of the existence of minority interests in certain parts of the group on the expected returns to investors in the parent undertaking may find it helpful to have information showing the amounts attributable to the minority interest in different group segments.

## **NOTE OF LEGAL REQUIREMENTS**

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### *Legal requirements in United Kingdom*

*Readers should refer to the Act or the Regulations themselves for an understanding of the relevant points of law. This section lists only the main sections in the Act or the Regulations containing provisions in relation to subsidiary undertakings. The provisions of the Act and the Regulations are not considered further here because they are dealt with in the many references to the Act and the Regulations in the other sections of the FRS.*

### *Main sections of the Companies Act 2006*

- 95 The main sections of the Companies Act 2006 containing provisions relating to the preparation of consolidated financial statements are the following:

<b>Section</b>	<b>Topic</b>
398	Option to prepare group accounts
399	Duty to prepare group accounts
400	Exemption for company included in EEA group accounts of larger group
401	Exemption for company included in non-EEA group accounts of larger group
402	Exemption if no subsidiary undertakings need be included in the consolidation
403	Group accounts; applicable accounting framework
404	Companies Act group accounts
405	Companies Act group accounts: subsidiary undertakings included in the consolidation
409	Information about related undertakings
410	Information about related undertakings: alternative compliance
1161	Meaning of 'undertaking' and related expressions
1162	Parent and subsidiary undertakings

95A The main sections of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 containing provisions relating to the preparation of consolidated financial statements are the following:

<b>Section</b>	<b>Topic</b>
Regulation 7 and Schedule 4	Information on related undertakings required whether preparing Companies Act or IAS Accounts
Schedule 6	Companies Act Group Accounts

95B The main sections of The Small Companies and Groups (Accounts and Directors' Report) Regulations 2008 containing provisions relating to the preparation of consolidated financial statements are the following:

<b>Section</b>	<b>Topic</b>
Regulation 8 to 11 and Schedule 6	
Part 1	Form and Content of Companies Act Group Accounts
Part 2	Information about related undertakings where company preparing group accounts (Companies Act or IAS Group Accounts)

*Disclosure requirements*

96 The following sections and paragraphs give the main disclosure requirements of the Act and the Regulations with respect to consolidated financial statements.

Section 404(4) and (5)

Sections 400(2) and 401(2)

Section 409

Schedule 6 to the Regulations – ‘Companies Act Group Accounts’ – Paragraphs 3, 4, 13, 14, 15 and 17

Regulation 7 and Schedule 4 to the Regulations – ‘Information on Related Undertakings required whether preparing Companies Act or IAS Accounts’

97 Withdrawn.

### ***Legal Requirements in the Republic of Ireland***

98 The following table shows the provisions in the Companies Acts 1963–2006 and various Regulations implementing EC Accounting Directives, corresponding to the provisions of the UK Companies Act 2006 (‘the 2006 Act’) and the Schedules to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (‘the 2008 Regulations’) referred to in the Standard. The principal pieces of Irish legislation referred to in the table below are:

- The Companies Act 1963 (‘1963 Act’);
- The Companies (Amendment) Act 1986 (‘1986 Act’);
- The European Communities (Companies: Group Accounts) Regulations 1992 – SI 201 of 1992 (‘Group Accounts Regulations 1992’ or ‘GAR 1992’);
- The European Communities (Credit Institutions: Accounts) Regulations 1992 – SI 294 of 1992 – (‘Credit Institutions Regulations 1992’ or ‘CIR 1992’);
- The European Communities (Insurance Undertakings: Accounts) Regulations 1996, SI 23 of 1996 – (‘Insurance Undertakings Regulations 1996’ or ‘IUR 1996’).

This section is intended as a reference guide to the corresponding provisions in Irish company law and does not purport to be comprehensive. Readers are advised to refer to the Irish legislation for an understanding of relevant legal points.

Paragraph of FRS 2		ROI References					Comments
UK References	1963 Act / 1986 Act	GAR 1992	CIR 1992	IUR 1996			
<b>Summary</b>							
Para a	Companies Act 2006 (the 2006 Act)	Companies Act 1963 ('1963 Act'); Companies (Amendment) Act 1986 ('1986 Act')	European Communities (Companies: Group Accounts) Regulations 1992 ('GAR 1992')	European Communities (Credit Institutions: Accounts) Regulations 1992 ('CIR 1992')	European Communities (Insurance Undertakings: Accounts) Regulations 1996 ('IUR 1996')	Companies Acts 1963-2006	
Para e	Section 400		Regulations 8 and 9	Regulation 8	Regulation 12		
Para e	Section 401		Regulation 9A	Regulation 8A	Regulation 12A		
Para e	Section 402			Paragraph 2(8) of Part II of the Schedule		No explicit equivalent to paragraph 2(8) in the Group Accounts Regulations 1992 (GAR 1992) or the Insurance Undertakings Regulations 1996 (IUR 1996).	
<b>Statement of Standard Accounting Practice</b>							
Para 7a	Section 1162(2)(c)		Regulation 4(1)(b)	Regulation 2(1)	Regulation 11(1)(b)		

Paragraph of FRS 2	UK References	ROI References					Comments
		1963 Act / 1986 Act	GAR 1992	CIR 1992	IUR 1996		
Para 14	2006 Act and the 2008 Regulations Section 1162	Section 155 (1963 Act)	Regulation 4	Regulation 2(1)	Regulation 11		
Para 15	The Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008 – SI 2008 No 410 – (‘the 2008 Regulations’)		Schedule	Schedule	Schedule		
Para 17	Schedule 7 of the 2006 Act	Section 155 (1963 Act)	Regulation 4	Regulation 2(1)	Regulation 11	No explicit equivalent in Irish company law; the provisions noted deal with various aspects of holding and subsidiary undertakings.	
Para 21a	Section 400(2)		Regulation 8(3)	Regulations 8(1) and 8(3)	Regulations 12(1) and 12(3)		

Paragraph of FRS 2	UK References	ROI References					Comments
		1963 Act / 1986 Act	GAR 1992	CIR 1992	IUR 1996		
	<b>2006 Act and the 2008 Regulations</b>						
Para 21b	Sections 400(2) and 400(1)(b)		Regulations 8(1)-(3) and 9	Regulations 8(1)-(3) and 8(6)	Regulations 12(1)-(3) and 12(6)		
Para 21c	Section 401(2)		Regulations 9A(1) and 9A(3)	Regulations 8A(1) and 8A(3)	Regulations 12A(1) and 12A(3)		
Para 21d	Sections 401(2) and 401(1)(b)		Regulations 9A(3) and 9A(1)(b)	Regulations 8A(3) and 8A(1)(b)	Regulations 12A(3) and 12A(1)(b)		
Para 21e	Section 405		Regulations 10 and 11	Paragraph 2 of Part II of the Schedule	Paragraph 2 of Part IV of the Schedule		
Para 22	Schedule 4 10(1) of the Regulations	Paragraph 54(2)(a) of the Schedule (1986 Act)	Regulations 8(3)(d), 9(2) and 9A(3)(d)	Regulations 8(3)(d) and 8A(3)(d)	Regulations 12(3)(d) and 12A(3)(d)		
Para 25	Section 405(3)		Regulation 11	Paragraph 2(3) of Part II of the Schedule	Paragraph 2(3) of Part IV of the Schedule		
Para 25a	Section 1162	Section 155 (1963 Act)	Regulation 4	Regulation 2(1)	Regulation 11		

Paragraph of FRS 2	UK References	ROI References					Comments
		1963 Act / 1986 Act	GAR 1992	CIR 1992	IUR 1996		
Para 26	2006 Act and the 2008 Regulations Section 409 and regulation 7 and Schedule 4 16(1) of the Regulations	Section 16(1) and paragraph 54(2)(a) of the Schedule (1986 Act)	Paragraph 18(2) of the Schedule	Paragraph 11 of Part III of the Schedule	Paragraphs 32 and 33 of Part IV of the Schedule		
Para 31	Section 409 and regulation 7 Schedule 4 Parts 1 and 3 of the Regulations	Section 16, Paragraphs 45, 45A, 46, 46A, 54 and 55 of the Schedule (1986 Act).	Paragraphs 18-22 of the Schedule	Regulation 10; Part III of the Schedule	Paragraphs 32-36 of Part IV of the Schedule		The provisions noted set out the requirements of Irish company law with regard to information on related undertakings
Para 32	Section 405(3)		Regulation 11	Paragraph 2(3) of Part II of the Schedule	Paragraph 2(3) of Part IV of the Schedule		
Para 33	Schedule 4 of the Regulations	Section 16, Paragraphs 45, 45A, 46, 46A, 54 and 55 of the Schedule (1986 Act)	Paragraphs 18-22 of the Schedule	Regulation 10; Part III of the Schedule	Paragraphs 32-36 of Part IV of the Schedule		The provisions noted set out the requirements of Irish company law with regard to information on related undertakings.

Paragraph of FRS 2	ROI References						Comments
	UK References	1963 Act / 1986 Act	GAR 1992	CIR 1992	IUR 1996		
Para 34	2006 Act and the 2008 Regulations Section 409 and paragraphs 1 and 16 of Schedule 4 of the Regulations	Section 16(1) and paragraph 54(2)(a) of the Schedule (1986 Act)	Paragraph 18(2) of the Schedule	Paragraphs 1 and 11 of Part III of the Schedule	Paragraphs 32 and 33 of Part IV of the Schedule	The provisions noted set out the requirements of Irish company law with regard to information on related undertakings.	
Para 35	Paragraph 17(2) of Schedule 6 of the Regulations		Paragraph 8(2) of the Schedule	Paragraph 18(2) of Part II of the Schedule	Paragraph 19(2) of Part IV of the Schedule		
Para 36	Paragraphs 17(3)(a) and 17(3)(b) of Schedule 6 of the Regulations		Paragraph 9 of the Schedule	Paragraphs 18(3) and 18(4) of Part II of the Schedule	Paragraphs 19(3) and 19(4) of Part IV of the Schedule		
Para 41	Paragraph 3(2) of Schedule 6 of the Regulations		Regulation 30(3)	Paragraph 4(2) of Part II of the Schedule	Paragraph 15(2) of Part IV of the Schedule		
Para 45	Paragraph 9 of Schedule 6 of the Regulations		Regulation 19	Paragraph 10 of Part II of the Schedule	Paragraph 9 of Part IV of the Schedule		

ROI References						
Paragraph of FRS 2	UK References	1963 Act / 1986 Act	GAR 1992	CIR 1992	IUR 1996	Comments
Para 48	2006 Act and the 2008 Regulations Paragraph 15 of Schedule 6 of the Regulations		Regulation 27	Paragraph 16 of Part II of the Schedule	Paragraph 6 of Part IV of the Schedule	Irish company law requires that where the composition of the undertakings dealt with in the group accounts has changed significantly, information must be provided to make the comparison of successive sets of group accounts meaningful.
Para 50	Paragraph 9 of Schedule 6 of the Regulations		Regulation 19	Paragraph 10 of Part II of the Schedule	Paragraph 9 of Part IV of the Schedule	
<b>Explanation</b>						
Para 62	Section 1162	Section 155 (1963 Act)	Regulation 4	Regulation 2(1)	Regulation 11	
Para 66	Section 1162	Section 155 (1963 Act)	Regulation 4	Regulation 2(1)	Regulation 11	
Para 68	Section 1162	Section 155 (1963 Act)	Regulation 4	Regulation 2(1)	Regulation 11	

Paragraph of FRS 2	UK References	ROI References					Comments
		1963 Act / 1986 Act	GAR 1992	CIR 1992	IUR 1996		
Para 69	2006 Act and the 2008 Regulations Section 1162	Section 155 (1963 Act)	Regulation 4	Regulation 2(1)	Regulation 11		
Para 70	Section 1162(2)(c)		Regulation 4(1)(b)	Regulation 2(1)	Regulation 11(1)(b)		
Para 70	Paragraph 4(1) of Schedule 7 of the 2006 Act		Regulation 4(5)	Regulation 2(1)	Regulation 11(5)		
Para 70	Section 172					No corresponding Irish provision.	
Para 71	Section 1162(4)(a)		Regulation 4(1)(c)	Regulation 2(1)	Regulation 11(1)(c)		
Para 71	Paragraph 4(3) of Schedule 7 of the 2006 Act		Regulation 4(7)	Regulation 2(1)	Regulation 11(7)		
Para 71	Section 1162(2)(c)		Regulation 4(1)(b)	Regulation 2(1)	Regulation 11(1)(b)		
Para 74	Section 1162(4)(b)		Regulation 4(1)(ca)	Regulation 2(1)	Regulation 11(1)(ca)		
Para 76	Section 405(2) and 405(3)		Regulations 10 and 11	Paragraph 2 of Part II of the Schedule	Paragraph 2 of Part IV of the Schedule		

Paragraph of FRS 2	UK References	ROI References					Comments
		1963 Act / 1986 Act	GAR 1992	CIR 1992	IUR 1996		
Para 77	2006 Act and the 2008 Regulations Section 1162	Section 155 (1963 Act)	Regulation 4	Regulation 2(1)	Regulation 11		
Para 78	Section 405(2) and 405(3)		Regulations 10 and 11	Paragraph 2 of Part II of the Schedule	Paragraph 2 of Part IV of the Schedule		
Para 78d	Paragraph 8(b) of Schedule 7 of the 2006 Act		Regulation 4(3)(c)	Regulation 2(1)	Regulation 11(3)(c)		
Para 79b	Section 1162	Section 155 (1963 Act)	Regulation 4	Regulation 2(1)	Regulation 11		
Para 80	Section 1162	Section 155 (1963 Act)	Regulation 4	Regulation 2(1)	Regulation 11		
Para 84	Section 1162	Section 155 (1963 Act)	Regulation 4	Regulation 2(1)	Regulation 11		
Para 88	Paragraph 9 of Schedule 6 of the Regulations		Regulation 19	Paragraph 10 of Part II of the Schedule	Paragraph 9 of Part IV of the Schedule		
Para 89	Paragraph 9 of Schedule 6 of the Regulations		Regulation 19	Paragraph 10 of Part II of the Schedule	Paragraph 9 of Part IV of the Schedule		

<b>ROI References</b>						
<b>Paragraph of FRS 2</b>	<b>UK References</b>	<b>1963 Act / 1986 Act</b>	<b>GAR 1992</b>	<b>CIR 1992</b>	<b>IUR 1996</b>	<b>Comments</b>
	<b>2006 Act and the 2008 Regulations</b>					
Para 89	Section 404(5)		Regulations 14(3) and 14(4)	Regulations 7(7)(d) and 7(7)(e)	Regulations 10(7)(d) and 10(7)(e)	
<b>References in footnotes</b>						
Para 38	Paragraph 9 of Schedule 6 of the Regulations		Regulation 19	Paragraph 10 of Part II of the Schedule	Paragraph 9 of Part IV of the Schedule	
Para 38	Paragraph 11 of Schedule 6 of the Regulations		Regulation 22	Paragraph 12 of Part II of the Schedule	Paragraph 11 of Part IV of the Schedule	
<b>References in margins</b>						
Para 6	FRS defining phrase used in s1162(4)(a)		Regulation 4(1)(c)	Regulation 2(1)	Regulation 11(1)(c)	
Para 7a	From 7Sch 4(1) of the 2006 Act		Regulation 4(5)	Regulation 2(1)	Regulation 11(5)	
Para 7b	FRS defining phrase used in s1162(4)(a)		Regulation 4(1)(c)	Regulation 2(1)	Regulation 11(1)(c)	

Paragraph of FRS 2	UK References	ROI References					Comments
		1963 Act / 1986 Act	GAR 1992	CIR 1992	IUR 1996		
Para 9	2006 Act and the 2008 Regulations s474(1)	Section 155 (1963 Act)	Regulation 4	Regulation 2(1)	Regulation 11	Irish company law does not define a group. Constituent elements of a group are defined in the provisions noted.	
Para 10	FRS defining phrase used in 10Sch 11 of the Regulations		Regulation 35(1)	Paragraph 1 of Part IV of the Schedule	Paragraph 23 of Part IV of the Schedule		
Para 11	FRS defining phrase used in s405(3)(c)		Regulation 11(c)	Paragraph 2(3)(c) of Part II of the Schedule	Paragraph 2(3)(c) of Part IV of the Schedule		
Para 12	FRS defining phrase used in s1162(4)(b)		Regulation 4(1)(ca)	Regulation 2(1)	Regulation 11(1)(ca)		
Para 13	From 6Sch 17 of the Regulations		Paragraphs 8 and 9 of the Schedule	Paragraph 18 of Part II of the Schedule	Paragraph 19 of Part IV of the Schedule		
Para 14	From s1162 and 7Sch of the 2006 Act	Section 155 (1963 Act)	Regulation 4	Regulation 2(1)	Regulation 11		

<b>ROI References</b>						
<b>Paragraph of FRS 2</b>	<b>UK References</b>	<b>1963 Act / 1986 Act</b>	<b>GAR 1992</b>	<b>CIR 1992</b>	<b>IUR 1996</b>	<b>Comments</b>
	<b>2006 Act and the 2008 Regulations</b>					
Para 14a	From s1162(2)(a)		Regulation 4(1)(a)(i)	Regulation 2(1)	Regulation 11(1)(a)(i)	
Para 14b	From s1162(2)(b) and 7Sch 3 of the 2006 Act		Regulations 4(1)(a)(ii) and 4(2)	Regulation 2(1)	Regulations 11(1)(a)(ii) and 11(2)	
Para 14c(i)	From s1162(2)(c) and 7Sch 4 of the 2006 Act		Regulation 4(1)(b)(i)	Regulation 2(1)	Regulation 11(1)(b)(i)	
Para 14c(ii)	From 7Sch 4(2) of the 2006 Act		Regulations 4(1)(b)(ii) and 4(6)	Regulation 2(1)	Regulations 11(1)(b)(ii) and 11(6)	
Para 14d	From s1162(2)(d)		Regulation 4(1)(a)(iii)	Regulation 2(1)	Regulation 11(1)(a)(iii)	
Para 14e(i)	From s1162(4)(a)		Regulation 4(1)(c)	Regulation 2(1)	Regulation 11(1)(c)	
Para 14e(ii)	From s1162(4)(b)		Regulation 4(1)(ca)	Regulation 2(1)	Regulation 11(1)(ca)	

Paragraph of FRS 2	UK References	ROI References					Comments
		1963 Act / 1986 Act	GAR 1992	CIR 1992	IUR 1996		
Para 14f	2006 Act and the 2008 Regulations From s1162(5)		Regulation 4(1)(d)	Regulation 2(1)	Regulation 11(1)(d)		The Irish company law provisions noted define subsidiaries in detail. A parent undertaking is defined as an undertaking with one or more subsidiary undertakings.
Para 14f	From s1162(3)		Regulations 4(3) and 4(4)	Regulation 2(1)	Regulations 11(3) and 11(4)		The Irish company law provisions noted define subsidiaries in detail. A parent undertaking is defined as an undertaking with one or more subsidiary undertakings.
Para 14f	From 7Sch 9 of the 2006 Act		Regulations 4(3) and 4(4)	Regulation 2(1)	Regulations 11(3) and 11(4)		The Irish company law provisions noted define subsidiaries in detail. A parent undertaking is defined as an undertaking with one or more subsidiary undertakings.
Para 16	From s1161		Regulation 3(1)	Regulation 2(1)	Regulation 2(1)		

Paragraph of FRS 2	UK References	ROI References					Comments
		1963 Act / 1986 Act	GAR 1992	CIR 1992	IUR 1996		
Para 17	From 7Sch 2(1) of the 2006 Act		Regulation 3(4)	Regulation 2(5)(ii)	Regulation 11(4)		
Para 20	From s399, s403 and s398	Sections 150, 150A and 150B (1963 Act)	Regulations 5(1), 7, 8, 9, 9A, 10 and 11	Regulations 7(3), 8, 8A, Schedule Part II paragraphs 2(2) and 2(3)	Regulations 10(3), 12, 12A, Schedule Part IV paragraphs 2(2) and 2(3)	Irish company law does not have an equivalent to the UK's "small companies' regime". An Irish parent company within the scope of the Group Accounts Regulations 1992 (GAR 1992) is exempt from the requirement to prepare group accounts if it meets the size and other criteria set out in Regulation 7 of those regulations.	
Para 21a	s400		Regulations 8 and 9	Regulation 8	Regulation 12		
Para 21b	s400		Regulations 8 and 9	Regulation 8	Regulation 12		
Para 21c	s401		Regulation 9A	Regulation 8A	Regulation 12A		

Paragraph of FRS 2	UK References	ROI References					Comments
		1963 Act / 1986 Act	GAR 1992	CIR 1992	IUR 1996		
Para 21e	2006 Act and the 2008 Regulations s402			Paragraph 2(8) of Part II of the Schedule		No explicit equivalent to paragraph 2(8) in the Group Accounts Regulations 1992 (GAR 1992) or the Insurance Undertakings Regulations 1996 (IUR 1996).	
Para 22	s409, s410, regulation 7 and 4Sch Part 2 of the Regulations	Section 16 (1986 Act)		Regulation 10; Part III A of the Schedule	Paragraph 19 of Part III of the Schedule	The provisions noted set out the requirements of Irish company law with regard to information on related undertakings.	
Para 23	s405(1)		Regulation 5(2)	Paragraph 2 of Part II of the Schedule	Paragraph 2 of Part IV of the Schedule		
Para 24	FRS allows s405(3)(b) exclusion only where the undertaking is not material		Regulation 11(b)	Paragraph 2(3)(b) of Part II of the Schedule	Paragraph 2(3)(b) of Part IV of the Schedule		

ROI References						
Paragraph of FRS 2	UK References	1963 Act / 1986 Act	GAR 1992	CIR 1992	IUR 1996	Comments
Para 25	2006 Act and the 2008 Regulations s405(3)		Regulation 11	Paragraph 2(3) of Part II of the Schedule	Paragraph 2(3) of Part IV of the Schedule	
Para 25a	FRS requires exclusion permitted by s405(3)(a)		Regulation 11(a)	Paragraph 2(3)(a) of Part II of the Schedule	Paragraph 2(3)(a) of Part IV of the Schedule	
Para 25b	FRS restricts exclusion permitted by s405(3)(c)		Regulation 11(c) (FRS restricts the exclusion permitted)	Paragraph 2(3)(c) of Part II of the Schedule (Exclusion restricted in same manner as per FRS)	Paragraph 2(3)(c) of Part IV of the Schedule (Exclusion restricted in same manner as per FRS)	
Para 26	s409, regulation 7 and 4Sch 16(1) of the Regulations	Section 16(1) and paragraph 54(2)(a) of the Schedule (1986 Act)	Paragraph 18(2) of the Schedule	Paragraph 11 of Part III of the Schedule	Paragraphs 32 and 33 of Part IV of the Schedule	

Paragraph of FRS 2	UK References	ROI References					Comments
		1963 Act / 1986 Act	GAR 1992	CIR 1992	IUR 1996		
Para 31	2006 Act and the 2008 Regulations s409 and 4Sch 16 of the Regulations	Section 16(1) and paragraph 54(2)(a) of the Schedule (1986 Act)	Paragraphs 18(2) and 19 of the Schedule	Paragraph 11 of Part III of the Schedule	Paragraph 32 and 33 of Part IV of the Schedule		
Para 31	4Sch 2, 3, 16 and 17 of the Regulations	Section 16; Paragraphs 45, 45A, 46, 46A, 54 and 55 of the Schedule (1986 Act)	Paragraphs 18 and 19 of the Schedule	Regulation 10; Paragraphs 11-13 and 16 of Part III of the Schedule	Paragraphs 32 and 33 of Part IV of the Schedule		
Para 33	4Sch of the Regulations	Section 16; Paragraphs 45, 45A, 46, 46A, 54 and 55 of the Schedule (1986 Act)	Paragraphs 18-22 of the Schedule	Regulation 10; Part III of the Schedule	Paragraphs 32-36 of Part IV of the Schedule	The provisions noted set out the requirements of Irish company law with regard to information on related undertakings.	
Para 34	4Sch of the Regulations	Section 16; Paragraphs 45, 45A, 46, 46A, 54 and 55 of the Schedule (1986 Act)	Paragraphs 18-22 of the Schedule	Regulation 10; Part III of the Schedule	Paragraphs 32-36 of Part IV of the Schedule	The provisions noted set out the requirements of Irish company law with regard to information on related undertakings.	

		<b>ROI References</b>				
<b>Paragraph of FRS 2</b>	<b>UK References</b>	<b>1963 Act / 1986 Act</b>	<b>GAR 1992</b>	<b>CIR 1992</b>	<b>IUR 1996</b>	<b>Comments</b>
Para 35	2006 Act and the 2008 Regulations 6Sch 17(2) of the Regulations		Paragraph 8(2) of the Schedule	Paragraph 18(2) of Part II of the Schedule	Paragraph 19(2) of Part IV of the Schedule	
Para 36	6Sch 17(3) of the Regulations		Paragraph 9 of the Schedule	Paragraphs 18(3) and 18(4) of Part II of the Schedule	Paragraphs 19(3) and 19(4) of Part IV of the Schedule	
Para 39	FRS requirement in relation to 6Sch of the Regulations. The Act allows partial elimination but the FRS requires elimination in full		Regulation 25 does not provide for partial elimination	Paragraph 7 of Part II of the Schedule does not provide for partial elimination	Paragraph 5 of Part IV of the Schedule does not provide for partial elimination	
Para 40	6Sch 3(1) of the Regulations		Regulation 30(1)	Paragraph 4(1) of Part II of the Schedule	Paragraph 15(1) of Part IV of the Schedule	

ROI References						
Paragraph of FRS 2	UK References	1963 Act / 1986 Act	GAR 1992	CIR 1992	IUR 1996	Comments
Para 41	2006 Act and the 2008 Regulations 6Sch 3(2) of the Regulations		Regulation 30(3)	Paragraphs 4(2) of Part II of the Schedule	Paragraph 15(2) of Part IV of the Schedule	
Para 43	FRS preference of alternatives permitted by 6Sch 2(2) of the Regulations		Regulation 26(2)	Paragraph 3(3) of Part II of the Schedule	Paragraph 3(3) of Part IV of the Schedule	
Para 48	6Sch 15 of the Regulations		Regulation 27	Paragraph 16 of Part II of the Schedule	Paragraph 6 of Part IV of the Schedule	Irish company law requires that where the composition of the undertakings dealt with in the group accounts has changed significantly, information must be provided to make the comparison of successive sets of group accounts meaningful.
Para 50	6Sch 9 of the Regulations		Regulation 19	Paragraph 10 of Part II of the Schedule	Paragraph 9 of Part IV of the Schedule	

## THE DEVELOPMENT OF THE STANDARD

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*This section does not form part of the Financial Reporting Standard.*

*ASB Note: The ASB has retained this section from the original version of FRS 2 and (paragraph xxv) the amendment to FRS 2 issued in 2004.*

### *History of the FRS*

- i Statement of Standard Accounting Practice No. 14 (SSAP 14) 'Group Accounts', issued September 1978, dealt with the presentation of group accounts for a group of companies. The practice of preparing group accounts for companies and their subsidiaries had been well established in the United Kingdom and Ireland since 1947. However, the issue of International Accounting Standard No. 3 'Consolidated Financial Statements' made it desirable for there to be a domestic standard on the subject.
- ii SSAP 14 was drafted to accord with relevant provisions of the Companies Acts then in force. At that time the Companies Acts did not include detailed rules regarding the preparation of group accounts.
- iii SSAP 14 defined a holding company and a subsidiary company by reference to the legal definitions current at that time. The terms now used are 'parent undertaking' and 'subsidiary undertaking' which are defined in the Companies Act 1985, as amended by the Companies Act 1989 (the Act). The Act now contains new provisions on group accounts to implement the European Community Seventh Company Law Directive with the result that the requirements of SSAP 14 are no longer entirely consistent with current legislation.

- iv The need to revise SSAP 14 for changes in the law has provided an opportunity to conduct a thorough review of the Standard. This was undertaken initially by the Accounting Standards Committee whose proposals were issued as ED 50 'Consolidated accounts' in June 1990. The Accounting Standards Board issued the 'Interim Statement: Consolidated Accounts' in December 1990, to give timely guidance on how certain provisions of the Act were to be interpreted in the preparation of consolidated accounts. The Interim Statement also made the changes to SSAP 14 'Group Accounts' that were required as a consequence of the statutory changes. The issue of the FRS by the Accounting Standards Board completes the review process.

***Summary of the principal changes from Statement of Standard Accounting Practice NO. 14 – 'Group Accounts'***

- v SSAP 14 defined a company as a subsidiary of another 'if, but only if,
- (a) that other either:
- (i) is a member of it and controls the composition of its board of directors; or
- (ii) holds more than half in nominal value of its equity share capital; or
- (b) the first mentioned company is a subsidiary of any company which is that other's subsidiary, and it otherwise comes within the terms of Section 154 of the Companies Act 1948' (now repealed).

The FRS defines a parent undertaking and a subsidiary undertaking in the same way as the Act using a set of conditions that are based on whether one undertaking controls another. These are set out in paragraph 14 of the FRS.

- vi The FRS requires a parent undertaking not making use of an exemption to prepare consolidated financial statements for its group. SSAP 14 exceptionally allowed alternative forms of group reporting if the resulting group accounts were considered to give a fairer view of the financial position of the group as a whole than would consolidated financial statements.
- vii SSAP 14 exempted from the obligation to prepare group accounts only holding companies that were wholly-owned subsidiaries not otherwise required by law to prepare group accounts. The FRS follows the Act in allowing other exemptions from preparing consolidated financial statements. A parent undertaking is in general exempt from the requirement to prepare consolidated financial statements if its group is a small or medium-sized one<sup>\*</sup>; or if it is wholly or majority-owned by an undertaking established under the law of a member state of the European Community; or if all its subsidiary undertakings fall within the exclusions from consolidation.
- viii The circumstances in which subsidiary undertakings are to be excluded from the consolidation have changed in certain respects from those in SSAP 14.
  - (a) SSAP 14 required a subsidiary to be excluded from consolidation if its activities were so dissimilar from those of other companies within the group that its consolidation would be misleading and information would be better provided by presenting financial statements for the excluded subsidiary separate from the financial statements for the rest of the group. The

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<sup>\*</sup> *The Companies Act 2006 paragraph 399 applies to all companies that are not subject to the small companies regime. Consequently, a parent undertaking in the UK is no longer exempt from the requirement to prepare consolidated financial statements if its group is a medium-sized one. Irish company law continues to exempt medium-sized groups from the requirements to prepare consolidated financial statements under Regulation 7 of the European Communities (Companies: Group Accounts) Regulations 1992 (SI 201 of 1992) for parent undertakings within the scope of those Regulations.*

FRS requires a subsidiary undertaking to be excluded from consolidation if, exceptionally, its activities are so different from other subsidiary undertakings included in the consolidation that its inclusion in the consolidation would be incompatible with the obligation to give a true and fair view.

- (b) SSAP 14 required a subsidiary to be excluded from consolidation if the holding company held more than half of the subsidiary's equity share capital but either: (a) it did not own share capital carrying more than half the votes; or (b) contractual or other restrictions were imposed on its ability to appoint the majority of the board of directors. Although the FRS does not have the same exclusion, the FRS will in most cases have the same practical effect because (a) an undertaking is a subsidiary undertaking if another undertaking holds a majority of its voting rights and (b) exclusion is required where severe long-term restrictions substantially hinder the rights of the parent undertaking over the assets or management of its subsidiary undertaking.
  - (c) SSAP 14 required exclusion from consolidation of a subsidiary where control was intended to be temporary. The FRS requires consolidation where one undertaking controls another and, therefore, has not based exclusion on control being temporary. However, it does require exclusion from consolidation of a subsidiary undertaking held exclusively with a view to resale which has not previously been consolidated. This condition for exclusion is more restrictive than the temporary control test.
- ix SSAP 14 required that the consolidated financial statements should contain sufficient information about material subsidiaries acquired or sold to enable shareholders to appreciate the effect on the consolidated results. There are now specific disclosure requirements in the law, as well as in accounting standards in respect of acquisitions, and the general SSAP 14 requirement is not repeated in the FRS. In

addition FRS 1 'Cash Flow Statements' contains a requirement to show the cash flow effects of acquisitions and disposals.

- x SSAP 14 sets out the effective date of acquisition or disposal as the earlier of the date on which consideration passes or the date on which an offer becomes, or is declared, unconditional. This is replaced in the FRS by a single triggering date which is the date control of the undertaking passes. This date is a matter of fact and cannot be backdated or otherwise altered.
- xi SSAP 14 required that debit balances for the minority interests should only be recognised in the balance sheet if there was a binding obligation on minority shareholders to make good losses incurred which they were able to meet. The FRS requires minority interests to be debited in full with their share of any loss whether or not this results in a debit balance, subject to the need for a provision discussed below. A debit for minority interests does not represent a liability of the minority shareholders and it may be misleading to refer to their being obliged to make good losses. The group should make provision to the extent that it has any commercial or legal obligation (whether formal or implied) to provide finance that may not be recoverable in respect of the accumulated losses attributable to minority interests.

***Summary of the principal changes from the Board's 'Interim Statement: Consolidated Accounts'***

- xii In December 1990, the Board issued the 'Interim Statement: Consolidated Accounts' to give timely guidance on the application of certain provisions of the new Act to the preparation of consolidated financial statements. The Interim Statement dealt mainly with the interpretation of the new phrases used in the conditions that identified parent and subsidiary undertakings and with the exclusions from consolidation permitted or required by the Act for certain subsidiary undertakings. Although the drafting has changed

to fit the format of an accounting standard, the FRS incorporates the guidance given by the Interim Statement except in the following areas:

- (a) Dominant influence is now defined without explicit reference to control although the effect of dominant influence is the same as control.
- (b) The explanation dealing with subsidiary undertakings whose activities are so different that consolidation is incompatible with the obligation to give a true and fair view now states explicitly that the contrast between Schedule 9 and 9A companies and other companies, or between profit and not-for-profit undertakings, is not sufficient of itself to justify non consolidation.
- (c) The Interim Statement defined a joint venture. The FRS deals only with accounting for subsidiary undertakings leaving joint ventures as a separate project.

***Summary of the principal changes from Exposure Draft No. 50 – ‘Consolidated accounts’***

- xiii Exposure Draft No. 50 (ED 50) ‘Consolidated accounts’ was issued in June 1990 by the Accounting Standards Committee. It proposed standard accounting practice for the preparation of consolidated accounts covering both accounting for subsidiary undertakings and accounting for associated undertakings and joint ventures. The FRS deals only with accounting for subsidiary undertakings in consolidated financial statements. The Board is engaged in another project considering accounting for associated undertakings and joint ventures.
- xiv The Explanatory Note in ED 50 considered the purpose of consolidated accounts, the basis of consolidation and the meaning of control. The FRS deals only briefly in its explanation section with the conceptual background to financial reporting for groups. The conceptual basis of consolidated financial statements and consideration of the

group as a reporting entity are to be considered by the Board in the chapter of its Statement of Principles dealing with the boundaries of the reporting entity.

- xv ED 50 used the terms ‘subsidiary’, ‘parent’ and ‘enterprise’ in line with earlier accounting standards. Commentators on its proposals considered that it would be more appropriate to use the terminology of the Act on which the FRS is based. The FRS now refers to ‘subsidiary undertaking’, ‘parent undertaking’ and ‘undertaking’. However, in line with the Board’s other published work, the FRS uses ‘financial statements’ instead of ‘accounts’ as used in the Act.
- xvi ED 50 proposed definitions for the phrases used in the Act in the criteria for identifying parent and subsidiary undertakings. The FRS elaborates on these definitions in the light of the comments received on the ED. The general thrust of the definitions remains the same but the following changes are worth noting:
  - (a) ‘Dominant influence’ is no longer defined in terms of control but by its ability to achieve the operating and financial policies desired by the holder of the influence, notwithstanding the rights or influence of any other party. The actual exercise of dominant influence is identified by its effect in practice rather than the way in which it is exercised. The effect of dominant influence is the same as the effect of control.
  - (b) The role of reserve powers and powers of veto in the actual exercise of dominant influence has been clarified.
- xvii ED 50 proposed that a parent undertaking using an exemption from preparing consolidated accounts should make additional disclosures if its individual financial statements alone were not sufficient to give a true and fair view of its financial position. ED 50 noted that in some cases such additional information might better be presented by providing consolidated financial statements for the whole group. This proposal attracted adverse comment because, in

certain circumstances, its effect would be to take away an exemption given by the Act. The FRS requires a parent undertaking using an exemption to state that its financial statements present information about it as an individual undertaking and not about its group. Parent undertakings using any of the exemptions should also make the disclosures set out in Schedule 5 Part 1 of the Companies Act.

**xviii** ED 50 proposed definitions for the phrases used in the Act to set the conditions under which a subsidiary undertaking was permitted or required to be excluded from consolidation. As a result of the comments received the guidance of the FRS on how these conditions are to be interpreted has changed slightly from that given in ED 50 although the emphasis remains on interpreting these conditions restrictively. The main changes are set out below.

- (a) *Interests held exclusively with a view to subsequent resale.* A second part has been added bringing acquisitions as a result of the enforcement of a security within the definition of interests held exclusively with a view to subsequent resale unless the subsidiary undertaking has become part of the continuing activities of the group or the holder acts as if it intends the interest to become so.
- (b) *Activities so different that consolidation would be incompatible with the obligation to give a true and fair view.* ED 50 proposed that such an incompatibility could arise only from consolidating a Schedule 9 or 9A company with non Schedule 9 or 9A companies. Several commentators considered that a requirement not to consolidate Schedule 9 and 9A companies with others might result in a loss of useful and comparable information on group activities as a whole. Linking incompatibility with the true and fair view to issues relating to the format in which financial statements were presented was considered unsatisfactory. The FRS, therefore, stresses that the key feature of this exclusion is that including a given subsidiary undertaking in the consolidation is incompatible with the obligation to give a true and fair

view. The FRS notes that this incompatibility will be so exceptional in practice that it would be misleading to associate it with any particular contrast of activities. For example, the contrasts between Schedule 9 or 9A companies and other companies or between profit and not-for-profit undertakings would not be sufficient to justify non-consolidation.

- xix** ED 50 followed SSAP 14 and proposed that losses should only be debited to minority interests where they resulted in a debit balance if there was a binding and reliable obligation on the minority to make good any such losses. The FRS's treatment for the minority's share of losses is explained in paragraph xi above.
- xx** ED 50 proposed dropping the requirement of SSAP 14 (paragraph 18) that appropriate adjustments should be made to the consolidated financial statements for any abnormal transactions in the intervening period between the end of the period of a subsidiary and the later one of the group. Commentators considered that some disclosure of this sort would be useful. The FRS requires that, where a subsidiary undertaking's financial year end differs from that of the parent undertaking, the consolidated financial statements should be prepared using interim financial statements or, only if this is impracticable, its financial statements for its last financial year ending not more than three months before that of the group's parent undertaking. In this latter case, adjustment is required for changes in the intervening period that materially affect the view given by the consolidated financial statements.
- xxi** ED 50 proposed that the effective date of acquisition or disposal be the earlier of:
  - (a) the date on which the consideration passes; or
  - (b) the date at which an offer becomes, or is declared, unconditional; or

- (c) the date of such other event at which control is gained or ceases to exist.

The FRS now sets the date of changes in membership of the group as the date that control passes. The Explanation (paragraphs 84 and 85) considers the transactions and events that indicate when control passes.

- xxii** ED 50 proposed that its requirement to include the appropriate proportion of the results of a subsidiary undertaking that has been disposed of should be subject to the requirements of SSAP 6 ‘Extraordinary items and prior year adjustments’ (paragraphs 11-14) dealing with the disposal of a segment. The FRS does not refer to SSAP 6 and requires that the consolidated profit and loss account should include the results of a subsidiary undertaking up to the date of its disposal. The Board is proposing to supersede SSAP 6 with an FRS developed from FRED 1 ‘The Structure of Financial Statements – Reporting of Financial Performance’\*.
- xxiii** The FRS has dropped the proposed requirement of ED 50 in respect of disposals to disclose the amount of purchased goodwill attributable to business or business segments disposed of, and how that goodwill has been treated in determining the profit or loss on disposal. These disclosures are still required by paragraph 52(b) of SSAP 22 ‘Accounting for goodwill’. The treatment of goodwill on disposal is set out in paragraph 47, which requires that the net assets disposed of include any related goodwill not previously written off through the profit and loss account.
- xxiv** In response to criticism of the ED 50 proposals, the FRS changes the treatment for increases in stake in a subsidiary undertaking. ED 50 did not propose to require a revaluation to fair value on an increase in stake, and, consequently, the goodwill balance arising could have consisted of an amount

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\* Subsequently issued as FRS 3 ‘Reporting Financial Performance’.

relating to revaluation of net identifiable assets as well as goodwill. The FRS requires that the goodwill should be calculated by revaluing the subsidiary undertaking's assets and liabilities to fair value at the date of the change in stake, unless the difference between fair values and carrying amounts is not material.

- xxv** In 2004, FRS 2 was amended to reflect changes to the Act that were introduced by the Companies Act 1985 (International Accounting Standards and Other Accounting Amendments) Regulations 2004 (SI 2004 No. 2947).
- xxvi** In 2009, FRS 2 was amended to update the legal references following the introduction of the Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) and The Small Companies and Groups (Accounts and Directors' Report) Regulations 2008 (SI 2008 No. 409).

**SECTION TWO**

**AMENDMENT TO FRS 6**

**‘ACQUISITIONS AND MERGERS’**

**LEGAL CHANGES**

**AMENDMENTS TO FRS 6 ‘ACQUISITIONS AND MERGERS’**

The following amendments are made to FRS 6:

DEFINITIONS

- 1 Paragraph 3 is replaced with:

References to companies legislation mean:

- (a) in the United Kingdom, the Companies Act 2006 (The Act); the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (‘The Regulations’); and the Small Companies and Groups (Accounts and Directors’ Report Regulations 2008) i.e. for those small parent companies that opt to prepare group accounts.
- (b) in the Republic of Ireland, the Companies Acts 1963–2006, the European Communities (Companies: Group Accounts) Regulations 1992, the European Communities (Credit Institutions: Accounts) Regulations 1992 and the European Communities (Insurance Undertakings: Accounts) Regulations 1996.

STATEMENT OF STANDARD ACCOUNTING PRACTICE

- 2 In the text immediately following the title ‘Statement of Standard Accounting Practice’ delete ‘Companies Act 1985’ and insert ‘Companies Act 2006 and Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008’. Also delete ‘Great Britain’ and replace with ‘United Kingdom’ and delete the reference to ‘Northern Ireland’.
- 3 In paragraph 5(a) the marginal reference is amended to:

*[6 Sch 10, of the Regulations]*

- 4 In paragraph 13(a) the marginal reference is amended to:  
*[6 Sch 10, of the Regulations]*
- 5 In paragraph 16 the marginal reference is amended to:  
*[6 Sch 11, of the Regulations]*
- 6 In paragraph 20 the marginal reference is amended to:  
*[6 Sch 9, of the Regulations]*
- 7 In paragraph 21 the marginal reference is amended to:  
*[6 Sch 13(2), of the Regulations]*
- 8 In paragraph 22(a) the marginal reference is deleted.
- 9 In paragraph 22(b) the marginal reference is deleted.
- 10 In paragraph 22(c) the marginal reference is amended to:  
*[6 Sch 13(3) of the Regulations]*
- 11 In paragraph 22(e) and 22(f) the marginal references are deleted.
- 12 In paragraph 24 the marginal reference is amended to:  
*[6 Sch 13(3) of the Regulations]*
- 13 In paragraph 25 the marginal reference is amended to:  
*[6 Sch 13(4) of the Regulations]*
- 14 In paragraphs 35 and 36 the marginal references are deleted.
- 15 A new paragraph 38A is inserted as follows:

In 2009 the FRS was amended to update the legal references following the introduction of the Companies Act 2006 and

The Large and Medium-sized Companies and Groups (Accounts and Report) Regulations 2008 (SI 2008 No. 410) (equivalent provisions for small parent companies that opt to prepare group accounts are contained in the Small Companies and Groups (Accounts and Directors' Report) Regulations 2008 (SI 2008 No. 409). The amendments take effect for accounting periods beginning on or after 6 April 2008 or when the provisions of the Act and/or the Regulations are applied to other entities (eg limited liability partnerships), if later.

### EXPLANATION

- 16 In paragraph 43 after the reference to section 131 of the Companies Act 1985 a footnote is inserted to read: 'This reference will be replaced by section 612 of the Companies Act 2006 when these provisions come into force from 1 October 2009'.
- 17 The following is inserted after Adoption of FRS 6 by the Board:

### ADOPTION OF AMENDMENT TO FRS 6 BY THE ACCOUNTING STANDARDS BOARD (JUNE 2009)

Amendment to Financial Reporting Standard 6 'Acquisitions and Mergers' was approved for issue by the eleven members of the Accounting Standards Board.

Ian Mackintosh	(Chairman)
David Loweth	(Technical Director)
Nick Anderson	
Michael Ashley	
Edward Beale	
Marisa Cassoni	
Peter Elwin	
Ken Lever	
Robert Overend	
Andy Simmonds	
Professor Geoffrey Whittington	CBE

NOTE ON LEGAL REQUIREMENTS

- 18 The heading “Great Britain” is deleted and replaced with “United Kingdom”.
- 19 The sub-heading ‘*References are to the Companies Act 1985*’ is deleted and replaced with ‘*References are to the Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No.410)*’.

A new sub-heading is inserted, as follows:

- 20 *The requirements for small companies and groups that opt to prepare group accounts are set out in Schedule 6 of The Small Companies and Groups (Accounts and Directors’ Report) Regulations 2008 (SI 2008 No. 409).*
- 21 In paragraph 1 the following amendments are made:
  - (i) Delete the ‘The Companies Act’ and replace with ‘The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (‘the Regulations)’;
  - (ii) Schedule 4A, paragraph 9 is amended to Schedule 6 paragraph 9 of the Regulations;
  - (iii) Schedule 4A, paragraph 11 is amended to Schedule 6 paragraph 11 of the Regulations;
  - (iv) Schedule 4A, paragraph 10 is amended to Schedule 6 paragraph 10 of the Regulations and
  - (v) Paragraph 1(a) is deleted and replaced with:
    - (a) that at least 90% of the nominal value of the relevant shares in the undertaking acquired (excluding any shares in the undertaking held as treasury shares is

held by or on behalf of the parent company and its subsidiary undertakings.

- 22 In paragraph 2 the reference to Schedule 4A paragraph 12 is amended to Schedule 6 paragraph 12 of the Regulations.
- 23 In paragraph 3 the reference to Schedule 4A paragraph 13(2) is amended to Schedule 6 paragraph 13(2)(b) of the Regulations.
- 24 In paragraph 4 the reference to Schedule 4A paragraph 13(3) is amended to Schedule 6 paragraph 13(3) of the Regulations.
- 25 Paragraph 4(b) is deleted. The legal requirement has been repealed.
- 26 In paragraph 5 the reference to Schedule 4A paragraph 13(5) is amended to Schedule 6 paragraph 13(4) of the Regulations.
- 27 Paragraph 6 is deleted. This paragraph is no longer used.
- 28 In paragraph 7 the reference to paragraph 13 of Schedule 4A is amended to paragraph 13 of Schedule 6 of the Regulations and the reference to paragraph 16 of Schedule 5A is amended to paragraph 16 of Schedule 6 of the Regulations.
- 29 In the heading preceding paragraph 8 a footnote is inserted to read: 'The references in paragraphs 8 to 11 will be replaced by sections 610–615 of the Companies Act 2006 when these provision come into force from 1 October 2009'.
- 30 Paragraphs 12, 13 and 14 are deleted. These legal requirements have been repealed.
- 31 In paragraph 15 the reference to sections 131 to 133 are amended to sections 611, 612 and 615.

- 32 Paragraph 17 and the preceding sub-heading are deleted.
- 33 Paragraph 18 is deleted and replaced with the following:

The following table shows the provisions in the Companies Acts 1963–2006 and various Regulations implementing EC Accounting Directives, corresponding to the provisions of the UK Companies Act 2006 ('the 2006 Act') and the Schedules to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ('the 2008 Regulations') referred to in the Standard. The principal pieces of Irish legislation referred to in the table below are:

- The Companies Act 1963 ('1963 Act');
- The European Communities (Companies: Group Accounts) Regulations 1992 – SI 201 of 1992 ('Group Accounts Regulations 1992' or 'GAR 1992');
- The European Communities (Credit Institutions: Accounts) Regulations 1992 – SI 294 of 1992 – ('Credit Institutions Regulations 1992' or 'CIR 1992');
- The European Communities (Insurance Undertakings: Accounts) Regulations 1996, SI 23 of 1996 – ('Insurance Undertakings Regulations 1996' or 'IUR 1996').

This section is intended as a reference guide to the corresponding provisions in Irish company law and does not purport to be comprehensive. Readers are advised to refer to the Irish legislation for an understanding of relevant legal points.

UK References		ROI References				Comments
2006 Act and the 2008 Regulations	1963 Act	GAR 1992	CIR 1992	IUR 1996		
<i>Acquisition accounting</i>						
Schedule 6 paragraph 9 of the Regulations		Regulation 19	Paragraph 10 of Part II of the Schedule	Paragraph 9 of Part IV of the Schedule		
<i>Merger accounting</i>						
Schedule 6 paragraph 10 of the Regulations		Regulation 21	Paragraph 11 of Part II of the Schedule	Paragraph 10 of Part IV of the Schedule		
Schedule 6 paragraph 11 of the Regulations		Regulation 22	Paragraph 12 of Part II of the Schedule	Paragraph 11 of Part IV of the Schedule		
Schedule 6 paragraph 12 of the Regulations		Regulation 23	Paragraph 13 of Part II of the Schedule	Paragraph 12 of Part IV of the Schedule		
<i>Disclosures</i>						
Schedule 6 paragraph 13(2)(b) of the Regulations		Paragraph 12(2)(b) of the Schedule	Paragraph 14(2)(b) of Part II of the Schedule	Paragraph 26(2)(b) of Part IV of the Schedule		

ROI References					
UK References	1963 Act	GAR 1992	CIR 1992	IUR 1996	Comments
Schedule 6 paragraphs 13(3)-13(5) of the Regulations		Regulation 27	Paragraph 16 of Part II of the Schedule	Paragraph 6 of Part IV of the Schedule	Irish company law requires that where the composition of the undertakings dealt with in the group accounts has changed significantly, information must be provided to make the comparison of successive sets of group accounts meaningful.
Schedule 6 paragraph 16 of the Regulations					No corresponding Irish provision
<b>Share premium and merger relief – Appendix 1</b>					
Section 610	Section 62				
Sections 611-615					No group reconstruction or merger relief in Irish company law.

THE DEVELOPMENT OF THE FRS

- 34 A new heading and paragraph are inserted at the end of the Development of the FRS as follows:

LEGAL CHANGES: 2009

- 28 In 2009 the legal references in FRS 6 were updated following the introduction of the Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No.410).

**SECTION THREE**

**AMENDMENT TO FRS 28**

**‘CORRESPONDING AMOUNTS’**

**LEGAL CHANGES**

AMENDMENT TO **FRS 28 ‘CORRESPONDING AMOUNTS’**

The following amendments are made to FRS 28:

- 1 Paragraph 11 (including the footnotes) is replaced with:

**11 A reporting entity is not required to apply paragraph 10(a) in relation to any amounts stated for the items listed below which correspond to the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 identified in the marginal notes.\***

- |   |  |
|---|--|
| (a) details of additions, disposals, revaluations, transfers and cumulative depreciation of fixed assets;   | <i>[From Sch1<br/>Part 3, 51†]</i>                   |
| (b) transfers to or from reserves and provisions and the source and application of any transfers;   | <i>[From Sch1<br/>Part 3, 59‡]</i>                   |
| (c) accounting treatment of acquisitions;   | <i>[From Sch6<br/>Part 1, 13]</i>                    |
| (d) details of shareholdings in subsidiary undertakings held by a company or, where group accounts are prepared, held by the parent company and by the group; | <i>[From Sch4<br/>Part 2, 11 and<br/>Part 3, 17]</i> |

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\* The corresponding requirements for small companies are set out in *The Small Companies and Groups (Accounts and Directors' Report) Regulations 2008*.

- (e) significant holdings in undertakings other than subsidiary undertakings where group accounts are not prepared, details of the identity of each class of share in the undertaking held by the company, and the proportion of the nominal value of the shares of that class represented by those shares;** *[From Sch4 Part 1, 5 (3)]*
- (f) the proportion of the capital of the joint venture held by undertakings included in the consolidation;** *[From Sch4 Part 3, 18(1)(d)]*
- (g) details of shareholdings of associated undertakings held by the parent company and group; and** *[From Sch4 Part 3, 19(4) and 19(5)]*
- (h) details of other significant shareholdings of the parent company or the group.** *[From Sch4 Part 3, 20(1) and Part 1, 5(3)]*

† The corresponding requirement is set out in Schedule 2 paragraph 62 for banking companies and Schedule 3 paragraph 69 for insurance companies.

‡ The corresponding requirement is set out in Schedule 2 paragraph 70 for banking companies and Schedule 3 paragraph 77 for insurance companies.

- 2 A new paragraph 12A is inserted:

In 2009 the FRS was amended to update the legal references following the introduction of the Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410). The amendments take effect for accounting periods beginning on or after 6 April 2008, or when the provisions of the Act and/or the Regulations are applied to other entities (eg limited liability partnerships), if later.

- 3 Paragraphs 13 to 18 are withdrawn as the amendments to the Financial Reporting Standard for Smaller Entities (FRSSE) have been reflected in the extant FRSSE.
- 4 The following is inserted after Adoption of FRS 28 by the Board:

ADOPTION OF AMENDMENT TO FRS 28 BY THE  
ACCOUNTING STANDARDS BOARD (MAY 2009)

Amendment to Financial Reporting Standard 2 'Corresponding Amounts' was approved for issue by the eleven members of the Accounting Standards Board.

Ian Mackintosh	(Chairman)
David Loweth	(Technical Director)
Nick Anderson	
Michael Ashley	
Edward Beale	
Marisa Cassoni	
Peter Elwin	
Ken Lever	
Robert Overend	
Andy Simmonds	
Professor Geoffrey Whittington	CBE

- 5 Appendix I of the FRS is deleted and replaced with the following:

# APPENDIX I

## NOTE ON LEGAL REQUIREMENTS

### UNITED KINGDOM

- 1 The statutory requirements relating to the disclosure of corresponding amounts for items presented in the balance sheet or profit and loss account are set out in paragraphs 5 and 7 of Schedule 1 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. Corresponding requirements are set out in paragraphs 6 and 7 of Schedule 2 of the 2008 Regulations for banking companies and groups, and in paragraphs 4 and 5 of Schedule 3 of the 2008 Regulations for insurance companies.
- 2 The equivalent statutory requirements for small companies are set out in The Small Companies and Groups (Accounts and Directors' Report) Regulations 2008. The equivalent provisions of those set out in paragraph 11 of the Financial Reporting Standard are:

<b>Large and medium sized companies</b>	<b>Small companies</b>
Schedule 1 Part 3 paragraph 51	Schedule 1 Part 3 paragraph 48
Schedule 1 Part 3 paragraph 59	Schedule 1 Part 3 paragraph 54
Schedule 6 Part 1 paragraph 13	Schedule 6 Part 1 paragraph 13
Schedule 4 Part 2 paragraph 11	Schedule 2 Part 1 paragraph 2
Schedule 4 Part 3 paragraph 17	Schedule 6 Part 2 paragraph 23
Schedule 4 Part 1 paragraph 5(3)	Schedule 2 Part 1 paragraph 6(3)
Schedule 4 Part 3 paragraph 18(1)(d)	Schedule 6 Part 2 paragraph 26(1)(d)
Schedule 4 Part 3 paragraph 19(4) and (5)	Schedule 6 Part 2 paragraph 27(4) and (5)
Schedule 4 Part 3 paragraph 20(1)	Schedule 6 Part 2 paragraph 28(1)
Schedule 4 Part 1 paragraph 5(3)	Schedule 2 part 1 paragraph 6(3)

## REPUBLIC OF IRELAND

6 The following table shows the provisions in the Companies Acts 1963-2006 and various Regulations implementing EC Accounting Directives, corresponding to the provisions of the UK Companies Act 2006 ('the 2006 Act') and the Schedules to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ('the 2008 Regulations') referred to in the Standard. The principal pieces of Irish legislation referred to in the table below are:

- The Companies (Amendment) Act 1986 ('1986 Act');
- The European Communities (Companies: Group Accounts) Regulations 1992 – SI 201 of 1992 ('Group Accounts Regulations 1992' or 'GAR 1992');
- The European Communities (Credit Institutions: Accounts) Regulations 1992 – SI 294 of 1992 – ('Credit Institutions Regulations 1992' or 'CIR 1992');
- The European Communities (Insurance Undertakings: Accounts) Regulations 1996, SI 23 of 1996 – ('Insurance Undertakings Regulations 1996' or 'IUR 1996').

This section is intended as a reference guide to the corresponding provisions in Irish company law and does not purport to be comprehensive. Readers are advised to refer to the Irish legislation for an understanding of relevant legal points.

<b>ROI References</b>					
<b>UK References</b>	<b>1986 Act</b>	<b>GAR 1992</b>	<b>CIR 1992</b>	<b>IUR 1996</b>	<b>Comments</b>
<b>2006 Act and the 2008 Regulations</b>					
Schedule 1 Part 1 Paragraphs 5 and 7 of the Regulations	Sections 4(8) to 4(10)	Regulation 15(1)			
Schedule 2 Part 1 Paragraphs 6 and 7 of the Regulations			Paragraphs 3(4) and 4 of Part I of the Schedule		
Schedule 3 Part 1 Paragraphs 4 and 5 of the Regulations				Regulations 6(6) to 6(8)	
Schedule 1 Part 3 Paragraph 51 of the Regulations	Paragraph 29 of the Schedule	Regulation 15(1)			
Schedule 1 Part 3 Paragraph 59 of the Regulations	Paragraph 32 of the Schedule	Regulation 15(1)			
Schedule 6 Part 1 Paragraph 13 of the Regulations		Regulation 27	Paragraph 16 of Part II of the Schedule	Paragraph 6 of Part IV of the Schedule	Irish company law requires that where the composition of the undertakings dealt with in the group accounts has changed significantly, information must be provided to make the comparison of successive sets of group accounts meaningful.

<b>ROI References</b>					
<b>UK References</b>	<b>1986 Act</b>	<b>GAR 1992</b>	<b>CIR 1992</b>	<b>IUR 1996</b>	<b>Comments</b>
2006 Act and the 2008 Regulations	Section 16(1)		Paragraph 2 of Part III of the Schedule	Paragraph 19 of Part III of the Schedule	
Schedule 4 Part 2 Paragraph 11 of the Regulations	Section 16(1)	Paragraph 18 of the Schedule	Paragraph 12 of Part III of the Schedule	Paragraph 32 of Part IV of the Schedule	The provisions noted set out the requirements of Irish company law. Other than under paragraph 12 of Part III of the Schedule to the Credit Institutions Regulations 1992 (CIR 1992), Irish company law does not require the separate disclosure of the identity of each class of shares held, and the proportion of the nominal value of the shares of that class represented by those shares, distinguishing between shares held by the parent company and shares held by other group undertakings. However, paragraph 18 of the
Schedule 4 Part 3 Paragraph 17 of the Regulations	Section 16(1)	Paragraph 18 of the Schedule	Paragraph 12 of Part III of the Schedule	Paragraph 32 of Part IV of the Schedule	The provisions noted set out the requirements of Irish company law. Other than under paragraph 12 of Part III of the Schedule to the Credit Institutions Regulations 1992 (CIR 1992), Irish company law does not require the separate disclosure of the identity of each class of shares held, and the proportion of the nominal value of the shares of that class represented by those shares, distinguishing between shares held by the parent company and shares held by other group undertakings. However, paragraph 18 of the

<b>ROI References</b>					
<b>UK References</b>	<b>1986 Act</b>	<b>GAR 1992</b>	<b>CIR 1992</b>	<b>IUR 1996</b>	<b>Comments</b>
2006 Act and the 2008 Regulations					Schedule to the Group Accounts Regulations 1992 (GAR 1992), paragraph 11 of Part III of the Schedule to the Credit Institutions Regulations (CIR 1992) and paragraph 32 of Part IV of the Schedule to the Insurance Undertakings Regulations (IUR 1996) require disclosure of the basis for consolidating a subsidiary undertaking which is controlled by a group undertaking other than the parent company.
Schedule 4 Part 1 Paragraph 5(3) of the Regulations	Section 16(1)	Paragraph 22 of the Schedule	Paragraphs 7, 8 and 19 of Part III of the Schedule	Paragraph 36 of Part IV of the Schedule	
Schedule 4 Part 3 Paragraph 18(1)(d) of the Regulations	Section 16(1)	Paragraph 21 of the Schedule	Paragraph 17 of Part III of the Schedule	Paragraph 35 of Part IV of the Schedule	

<b>ROI References</b>						
<b>UK References</b>	<b>1986 Act</b>	<b>GAR 1992</b>	<b>CIR 1992</b>	<b>IUR 1996</b>	<b>Comments</b>	
<b>2006 Act and the 2008 Regulations</b>						
Schedule 4 Part 3 Paragraphs 19(4) and 19(5) of the Regulations	Section 16(1)	Paragraph 20 of the Schedule	Paragraph 18 of Part III of the Schedule	Paragraph 34 of Part IV of the Schedule		
Schedule 4 Part 3 Paragraph 20(1) and Part 1 Paragraph 5(3)	Section 16(1)	Paragraph 22 of the Schedule ('undertaking of substantial interest')	Paragraph 19 of Part III of the Schedule	Paragraph 36 of Part IV of the Schedule ('undertaking of substantial interest')		
Schedule 2 Paragraph 62 of the Regulations			Paragraph 55 of Part I of the Schedule			
Schedule 3 Paragraph 69 of the Regulations				Paragraphs 10(1)(a) and 10(3) of Part III of the Schedule		
Schedule 2 Paragraph 70 of the Regulations			Paragraph 59 of Part I of the Schedule			
Schedule 3 Paragraph 77 of the Regulations				Paragraph 14 of Part III of the Schedule		

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