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Your Bank Wants Compiled Financial Statements: What to Send If Your Parent Uses IFRS

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By the Guillen Pujol CPA Group Editorial Team

Executive Summary

- When a bank makes opening or renewing a line of credit conditional on compiled financial statements, the U.S. subsidiary of a foreign group already has the information in the reports it sends its parent under IFRS. Those reports, however, are not yet what the bank asked for.
- Reports to the parent are built to roll up group figures, while the bank looks at the subsidiary as a stand-alone borrower. The accounting framework, the currency, and open balances with the parent determine how much work remains before the lender accepts the package.
- In the United States, AR-C section 80 governs compilations. A CPA assists the subsidiary's management in presenting its financial statements, usually under U.S. GAAP, and documents the work in a signed report without auditing or reviewing the figures.
- Before hiring the CPA, it pays to confirm with the bank exactly which statements it expects and at what service level. Reconciling accounts with the parent early also keeps completed work from being redone midway.

When a U.S. subsidiary opens or renews a line of credit, its bank requires, at a minimum, compiled financial statements. As the lender, the bank needs to assess the company's financial position before it approves the financing.

For the owner or chief financial officer (CFO), the most immediate response is to send the reports the subsidiary already prepares for its parent company—the foreign company that owns the group—under International Financial Reporting Standards (IFRS) or another accounting standard from the parent's home country.

Those reports are built for the parent to consolidate figures across all its companies. The bank, by contrast, evaluates the borrowing subsidiary on its own and sets the terms for accepting its financial statements. If the package does not match that request, the credit process stalls until the subsidiary delivers statements in the

format the bank requested.

A request for compiled statements points to a specific standard. In the United States, AR-C section 80, Compilation Engagements, part of the Statements on Standards for Accounting and Review Services (SSARS), governs compilation services for financial statements. Under this standard, a certified public accountant (CPA) assists the subsidiary's owner, CFO, and management team in presenting their financial statements.

The CPA then issues a report that describes the work performed, without auditing, reviewing, or providing assurance on the figures. That boundary defines the scope of the work and determines how much of the existing reports the subsidiary can use.

What to Deliver When the Bank Requests Compiled Financial Statements

When a bank requests a compilation, it expects the required entity's financial statements, prepared under the applicable framework, along with the CPA's compilation report. Before defining the work, the subsidiary should confirm which entity must report, which periods the lender requires, which framework and currency it accepts, and whether it expects comparative statements or specific notes.

In a compilation, the subsidiary remains responsible for its financial statements, and the CPA works with the information the company provides. The bank ultimately receives those statements with a report signed by the CPA. That report sets a compilation apart from financial statement preparation under **AR-C section 70,** Preparation of Financial Statements, where the CPA prepares the figures without issuing a report.

The difference matters when a bank's request uses an ambiguous phrase such as *financial statements prepared by a CPA*. In that case, the subsidiary should ask the bank to specify whether it needs prepared, compiled, reviewed, or audited statements.

Once the bank answers, the package is set. It includes the subsidiary's financial statements for the requested periods, in the framework and currency the bank accepts, along with the CPA's compilation report. The subsidiary builds it from the reports it already sends the parent, and the remaining question is whether those reports need framework and currency adjustments.

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Accounting Framework and Currency: Parent Reports Versus the Statements the Bank Requests

The subsidiary prepares its reports with the rules and format the parent uses to consolidate group figures. Those reports serve as input but not as the deliverable when the bank requests the subsidiary's own statements. The first step is to confirm which entity must present the statements and under which framework, since that answer determines how much existing work carries over.

Banks typically receive a subsidiary's statements under U.S. GAAP, the standard accounting framework for U.S. companies. Working under IFRS is also possible when the terms of the service and the recipient's requirements allow it.

If the statements follow a financial reporting framework accepted in another country, the CPA must evaluate the applicable provisions of **AR-C section 100**. Depending on the framework chosen, some items in the existing reports may need adjustments to how they are recognized, measured, or presented.

The functional currency reflects the entity's primary economic environment, while the presentation currency is the one shown in the financial statements. When the parent receives reports in a different currency, the conversions and their accounting treatment need review. For the CFO, the subsidiary's statements must match the framework and currency set for the bank's request, whatever format the group uses to consolidate.

Intercompany Balances and Accounting Records: What to Review Before the Compilation

When the parent lends money to the subsidiary, or sells or charges it for services, the same transaction appears in both companies' books. A loan, for example, shows up as debt for the subsidiary and as a receivable for the parent.

If the amounts, dates, or currencies differ between the two records, they need to be reconciled before the compilation. These balances disappear when the parent consolidates group figures, but they still appear in the subsidiary's own statements, which the bank reviews.

The basis on which the subsidiary keeps its records also matters. When the books serve to prepare tax returns or management reports, they follow criteria that do not necessarily match the framework the bank

requires. In that case, the accounting team identifies the necessary adjustments before presenting the statements under the selected framework.

Before hiring a CPA for the compilation, the owner or CFO needs to know that whoever keeps the subsidiary's books must identify which balances with the parent remain unreconciled. With that information, the subsidiary can define the accounting work required, coordinate it between both entities, and determine what information will be available for the compilation.

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When the Bank Requires a Review or Audit Instead of a Compilation

The type of work the bank requires from the CPA—compilation, review, or audit—depends on the lender's terms and, when one exists, the credit agreement. A bank may accept compiled statements for one transaction and require reviewed or audited statements for another. The difference matters because each service carries its own professional scope and level of assurance.

In a review, the CPA asks questions of the subsidiary's management, compares year-over-year changes in the financial statements, and analyzes whether the figures are consistent. That work provides limited assurance and a conclusion on whether the statements need material modifications.

In an audit, the CPA performs broader testing and issues an opinion with reasonable assurance, the highest level these independent professional services provide. When the bank requires either service, compiled statements alone do not meet that requirement.

Independence also shapes the choice of professional. A CPA can perform a compilation without independence if the report discloses that fact, but reviews and audits require it. A CPA who also provides accounting services to the subsidiary must check the applicable independence rules before accepting such work. Identifying the required level early prevents work that later falls short of the financing terms.

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What Does Your Subsidiary Need to Deliver Compiled Financial Statements to the Bank?

Your subsidiary already has periodic reports for the parent, accounting records, and documentation of its operations. What often remains unorganized is turning that information into the statements the bank requested, under the framework and currency it accepts. The decision starts with confirming which statements the lender requires and which information to organize for the compilation.

If you are still unsure what the bank is asking for, or your subsidiary's books and balances with the parent need cleanup, working with a CPA lets you resolve those steps before the bank receives the statements.

At **Guillen Pujol CPA Group**, we work with U.S. subsidiaries of foreign groups and with companies that maintain international operations and structures. For your subsidiary, that means one team handles the books, the adjustments the bank requires, and the compilation report. Our related services include:

- **Preparation of Financial Statements**. We prepare the subsidiary's statements under the applicable framework when the bank accepts CPA-prepared statements without a compilation report.
- **Compilation of Financial Statements to Businesses of All Sizes**. We assist in presenting the financial statements under the framework the bank accepts and issue the corresponding compilation report.
- **Outsourced Accounting, Bookkeeping, and Financial Write-Up Services**. We organize the subsidiary's records and reconcile its balances with the parent before the compilation.
- **Outsourced CFO Services**. We coordinate financial communication with the bank, monitor the commitments in the credit agreement, and prepare the information for each lender review.

If your subsidiary needs to respond to a request for compiled financial statements, the next step is an evaluation session to review the bank's request, the information available, and the scope of the professional work. This conversation is exploratory and comes before any technical proposal or engagement.

[Request your evaluation session]

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