



Accounting Standards Board

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Françoise Flores
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22 June 2010

Dear Françoise

EFRAG DCL on IASB ED Conceptual Framework for Financial Reporting – the Reporting Entity

This letter sets out the UK Accounting Standards Board's (ASB's) comments on EFRAG's draft comment letter on the IASB Discussion Paper mentioned above (DP).

The ASB shares the main concerns raised by EFRAG in relation to the proposals in the IASB DP. We have the following answers to the questions to constituents asked in your letter:

1. *An overarching definition of control* (Pages 6-7) – The ASB agrees with the notion that control is used both in the context of reporting entity and also in the elements definition and that the two concepts should be aligned. If they are aligned, the ASB does not believe that this should be an issue that holds up the finalisation of the Reporting Entity chapter.
2. *Discussion on joint control* (Pages 9-10) – We would agree that the notion of joint control is particularly problematic in application. However, we believe that notion of joint control is a subset of control and requires careful consideration at the level of individual transactions. As such, we believe that it would be best explored at a standards level where it can be considered in more detail.

The ASB's response to the IASB is enclosed for your information.

If you would like to discuss these comments, please contact Seema Jamil-O'Neill on 020 7492 2422 or myself on 020 7492 2434.

Yours sincerely



Ian Mackintosh

Chairman

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Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

22 June 2010

Dear David

IASB ED Conceptual Framework for Financial Reporting – the Reporting Entity

This letter sets out the comments of the UK Accounting Standards Board (ASB) on the IASB Exposure Draft (ED) *Conceptual Framework for Financial Reporting – the Reporting Entity*.

Overall, the ASB agrees with the proposal that the conceptual framework should contain a broad description of a reporting entity. The appendix to this letter provides answers to the questions included in the ED. We have the following concerns with some of the proposals in the ED:

1. The description of a reporting entity in the ED (paragraph RE2) is different to that included in the DP. Our concern is that it replaces the term “other capital providers” in the DP definition and replaces it with “other creditors”. The reference to capital providers had been imported from the Objective chapter and had been an attempt to ensure that the objective of financial reporting applied equally to not-for-profit entities, which do not have investors as their primary users. The ASB believes that this replacement will cause problems for not-for-profit entities as the definition of a reporting entity will not be transferrable to a not-for-profit environment.
2. The ASB believes that the perspective from which financial statements are presented is a relevant concept that should be discussed in the Conceptual Framework. Consideration of the “perspective” is important in consistent application of the objective of financial reporting. The ASB notes that unlike the DP the ED on reporting entity does not appear to adopt a perspective. It would, therefore, recommend that the IASB conduct analysis of the potential benefits and shortcomings of adopting different perspectives before deciding on the most appropriate perspective to be adopted.

If you would like to discuss these comments, please contact Seema Jamil-O'Neill on 020 7492 2422 or myself on 020 7492 2434.

Yours sincerely



Ian Mackintosh

Chairman

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Appendix: Responses to questions set out in the ED

Question 1

Do you agree that a reporting entity is a circumscribed area of economic activities whose financial information has the potential to be useful to existing and potential equity investors, lenders and other creditors who cannot directly obtain the information they need in making decisions about providing resources to the entity and in assessing whether the management and the governing board of that entity have made efficient and effective use of the resources provided? (See paragraphs RE2 and BC4–BC7.) If not, why?

1. In the context of profit making entities the ASB believes that the definition of a reporting entity in the ED is sufficiently broad to serve as a concepts level definition. In this context, we do not consider the inclusion of references to “existing and potential equity investors, lenders and other creditors” in the definition of a reporting entity as defining the perspective from which the financial statements are prepared. We understand that others may take this view and would recommend that the IASB confirm this in finalising the chapter.
2. The description of a reporting entity in the ED (paragraph RE2) is different to that included in the DP. Our concern is that it replaces the term “other capital providers” in the DP definition and replaces it with “other creditors”. The reference to capital providers had been imported from the Objective chapter and had been an attempt to ensure that the objective of financial reporting applied equally to not-for-profit entities, which do not have investors as their primary users. The ASB believes that this replacement will cause problems for not-for-profit entities as the definition of a reporting entity will not be transferrable to a not-for-profit environment.

Question 2

Do you agree that if an entity that controls one or more entities prepares financial reports, it should present consolidated financial statements? Do you agree with the definition of control of an entity? (See paragraphs RE7, RE8 and BC18–BC23.) If not, why?

3. The ASB agrees that an entity that controls one or more entities should present consolidated financial statements.
4. We do have a comment on the description of joint control included in paragraph RE9 of the ED. That paragraph sets out the concept of joint control and states that:

“...none of the entities that share power to direct the activities of this other entity individually controls this other entity. Accordingly, none of these

entities should present information about itself and this other entity on a consolidated basis.”

5. In our view, the last sentence in this paragraph appears to be prejudging any standards level decisions on accounting for joint control entities. The ASB would recommend that the IASB only sets out the concept of joint control in the Framework itself. The detailed accounting and presentation requirements for joint entities should be determined at the standards level. As such, we would recommend that the last sentence in paragraph RE9 is deleted (this is consistent with the approach taken on significant influence in RE10).
6. The ASB agrees with the definition of control of an entity.

Question 3

Do you agree that a portion of an entity could qualify as a reporting entity if the economic activities of that portion can be distinguished from the rest of the entity and financial information about that portion of the entity has the potential to be useful in making decisions about providing resources to that portion of the entity? (See paragraphs RE6 and BC10.) If not, why?

7. The ASB agrees that a portion of an entity could qualify as a reporting entity if the economic activities of that portion can be distinguished from the rest of the entity and financial information about that portion of the entity has the potential to be useful in making decisions about providing resources to that portion of the entity.

Question 4

The IASB and the FASB are working together to develop common standards on consolidation that would apply to all types of entities. Do you agree that completion of the reporting entity concept should not be delayed until those standards have been issued? (See paragraph BC27.) If not, why

8. The ASB agrees that completion of the reporting entity concept should not be delayed until the IASB and FASB's standards on consolidation have been issued.
9. The ASB would also recommend that the completion of the other chapters of the Conceptual Framework should be included as a priority items in the IASB and FASB's agendas.