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THE
INSTITUTE OF
CHARTERED
ACCOUNTANTS
OF SCOTLAND



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21 June 2010

Dear Mr Enevoldsen

IASB EXPOSURE DRAFT 2010/2: CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING: THE REPORTING ENTITY

The Institute's Accounting Standards Committee has considered the above exposure draft and I am pleased to forward its comments to EFRAG.

The Institute is the first incorporated professional accountancy body in the world. The Institute's Charter requires the Accounting Standards Committee to act primarily in the public interest, and our responses to consultations are therefore intended to place the general public interest first. Our Charter also requires us to represent our members' views and protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

We fully support the development of the conceptual framework as an important step towards the creation of a single set of globally accepted accounting standards. We believe that such a framework should be primarily an enabling document from which standards would then follow and should not attempt to provide detailed guidance or examples. Any explanatory information or examples should be included within the Basis for Conclusions and does not belong within the body of the framework itself. The concepts within the framework must be capable of being universally understood and therefore must be able to withstand translation into multiple languages. We would urge that the language be kept as straightforward as possible.

Our responses to the specific questions posed in the exposure draft can be found below.

Question One

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?

Yes we agree with the broad definition of the reporting entity within RE2 but we note that the wording “management and the governing board” could be interpreted as requiring a reporting entity to have such management and governing board in place. This may not be the case where the reporting entity is a portion of a legal entity. We do, however agree that it is appropriate to include a reference to stewardship within the description.

Question Two

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 RE6 and BC10.) If not, why?

Yes we agree with the concept of control. However we do not agree with the example of a “potential equity investor” in RE6. As we have stated above, we do not believe that a conceptual framework should contain examples or explanatory guidance – the concepts should be able to stand alone. However, if it is considered necessary to include an example here we believe that a potential flotation would be a more suitable example than the “potential equity investor”. Information for one potential equity investor is not necessarily general purpose financial information and therefore this example could confuse the description rather than clarify it for the reader.

Question Three

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?

Yes we agree that a portion of an entity could qualify as a reporting entity.

We also note that under RE5 it may be possible for a legal entity with legally based financial reporting requirements to fall outside the definition of a reporting entity and we are concerned as to how this provision might be interpreted in practice. In particular, we are concerned at the use of the term "commingled". We believe it could be confusing to the reader rather than providing a useful example and further demonstrates why the use of examples within the body of conceptual framework is not appropriate. We do not think that the term “commingled” appropriately conveys the intention behind this paragraph. We believe it was intended that only where the activities are so interconnected that there is no way to identify two separate entities – i.e. in the most extreme circumstances – should there be one reporting entity. However, it took the Committee some discussion and debate to reach this conclusion – suggesting that the concept was not adequately explained and we believe that this could make it especially difficult to teach these concepts.

Question Four

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?

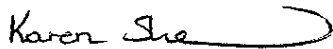
Yes we agree that the completion of the reporting entity concept should not be delayed until the consolidation standards have been issued. However, once the conceptual framework has been completed we believe it should then be exposed for comment in its entirety. We believe that constituents need to be able to comment on how the different components of the framework interact with one another and this is not possible on a piecemeal basis.

Additional Comments

The Committee does not believe that the conceptual framework is the appropriate place to define “control” – we believe that this should be left to the appropriate financial reporting standards. The paragraphs RE7 onwards appear to be concerned with the type of financial statements and we feel that this level of detail is not appropriate for the conceptual framework. We note the rather loose language within these paragraphs such as “might” and “may” and we believe that this type of language leaves too much scope for misinterpretation.

I hope our comments are useful to you. If you wish to discuss anything further please do not hesitate to contact me.

Yours sincerely



KAREN SHAW
Assistant Director, Accounting and Auditing
Secretary to the Accounting Standards Committee