IASB/FASB Meeting October 2010

IASB Agenda reference 12

FASB Agenda reference 99

Staff Paper

Project	**CONCEPTUAL FRAMEWORK: THE REPORTING ENTITY**
Topic	**Comment Letter Summary and Plans for Redeliberations**

Introduction

1. The comment period on the Exposure Draft (ED), *Conceptual Framework for Financial Reporting: The Reporting Entity*, ended on July 16, 2010. This memorandum summarizes the comments received on the ED and the staff's plans for redeliberations.

2. The staff plans to discuss all issues that could result in additions or modifications to the concepts at the November joint Board meeting. The objective of this meeting is to agree on the issues to be discussed at that meeting.

3. In order to identify the issues to be discussed at the November meeting, the staff has categorized the comments into the following categories:

   Category A: Consider adding or modifying the concept. This means that the staff will discuss the comment in future meetings but does not necessary mean that the staff is recommending a change.

   Category B: Consider clarifying the concept.

   Category C: Do not consider because it relates to a previously completed chapter (namely, Chapters 1 and 3).

   Category D: Do not consider because it relates to another phase of the conceptual framework or is a standards-level issue.

Category E: Consider providing more explanation in the introductory material or basis for conclusions.

Category F: Comments that cannot be categorized in any of the above.

4. The staff plans to address all of the issues that fall under *Category A* at the November joint Board meeting (a summary of those issues are presented in paragraph 107 of this paper). The staff will present suggestions for issues that fall under *Category B* and *Category E,* but these issues will be drafting issues instead of issues that require technical decisions. The staff does not plan to discuss issues that fall under *Category C* and *Category D*. The staff will address issues that fall under *Category F* issue by issue.

5. At this meeting, the staff would also like to confirm whether the Boards continue to believe that a roundtable or other form of additional outreach is not necessary for this phase of the project. If that is the case and the Boards could resolve all of the issues at the November meeting, the staff will ask for approval to begin the balloting process after the November meeting.

Respondent Demographics

6. As of October 1, 2010, the FASB and the IASB (the Boards) received 112 comment letters, grouped by constituent type in the following table:

Constituent Type	**Number**	**Percent**
Accounting firms	8	7
Governments/Regulators	12	11
Individuals	25	22
National standard-setters	18	16
Preparers	19	17
Professional organizations	24	22
Others	6	5
Total	**112**	**100**

7. Responses received, classified by geographical region can be summarized as follows:

Region	Number	Percent
Africa	2	2
Americas	43	38
Asia-Pacific	22	20
Europe	33	29
Multi-regional	12	11
Total	**112**	**100**

Overall Comments

Purpose of the Chapter (Category E)

8. Many respondents noted that the ED did not clearly state the purpose of the reporting entity chapter, that is, whether the ED was proposing that entities that met the description of a reporting entity *must*, *should* or *could* prepare general purpose financial reports. These respondents asked the Boards to clarify the purpose of the reporting entity chapter.

9. Several respondents stated that the Boards described the term *reporting entity* without describing the term *entity*. These respondents suggested that term *entity* be described to determine who *should* or *could* report and the term *reporting entity* be described to determine an “entity” that is required to report by the government or regulator.

Must

10. Respondents who read the ED to say that entities that met the description of a reporting entity *must* prepare general purpose financial reports stated that the responsibility of deciding who is required to prepare financial reports lies with governments and regulators, not the Boards.

11. While a few respondents read the ED in this way, there was no support for the purpose of this chapter to clarify who *must* prepare general purpose financial reports.

Should

12. Several respondents supported the view that the reporting entity chapter should clarify the concepts related to who *should* prepare general purpose financial reports. These respondents noted that such concepts would not deny individual jurisdictions from determining who must prepare general purpose financial reports, but would assist governments and regulators in determining the types of entities that should be required to prepare general purpose financial reports. Furthermore, these respondents noted that such concepts would be useful for entities that are not required by governments or regulators to prepare general purpose financial reports.

13. Respondents who interpreted the ED as stating that entities that met the description of a reporting entity *should* prepare general purpose financial reports stated that it would be too onerous for all portions of an entity that met the description of a reporting entity to prepare general purpose financial reports and suggested that the Boards clarify that any portion of an entity *could* prepare general purpose financial reports under GAAP but that it would not be required to do so.

Could

14. Several respondents supported the view that the reporting entity chapter should clarify the concepts related to who *could* prepare general purpose financial reports. These respondents asked the Boards to clarify that although an entity may meet the description of a reporting entity, whether or not that entity should prepare general purpose financial reports should be addressed outside of the conceptual framework.

General vs. Special Purpose Financial Reports (Category D)

15. Several respondents noted that the distinction between general purpose financial reports and special purpose financial reports was not made clear in the ED. These respondents noted that the Boards have decided not to clarify this distinction in the objectives chapter but intend to consider the boundaries of general purpose financial reporting in a later phase of the conceptual framework project.

16. One respondent observed that there is considerable confusion in practice. For example, paragraph 6 of the IASB's *Framework* refers to a prospectus as a special purpose financial report even though financial statements in a prospectus often are prepared for a wide range of users. This respondent asked the Boards to clarify the meaning of general purpose and special purpose financial reporting, and suggested that the Boards consider the definition of g*eneral purpose financial statements* adopted by the International Accounting and Assurance Standards Board so that the accounting and auditing guidance is aligned.

17. Another respondent suggested that the concept of user dependence should be used to make the distinction general purpose financial reports and special purpose financial reports.

Defining Control at a Higher Level (Category F)

18. Many respondents noted that the concept of *control* is a pervasive notion and, therefore, should not be defined in the reporting entity chapter but rather at a higher, more general level in the conceptual framework so that the notion could be used consistently in the context of control of an entity, definition of assets, and transfer of control in the proposed revenue recognition guidance. Some respondents noted that, while they agreed that *control* should be defined at a higher level, the reporting entity phase of the conceptual framework project should not be delayed for this issue.

Entity Perspective and Proprietary Perspective (Category A)

19. Many respondents noted that there is no discussion in the ED regarding the perspective from which financial statements are presented. In the Discussion Paper (DP), *Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Reporting Entity*, the Boards discussed the entity perspective and the proprietary perspective and proposed that the entity perspective be adopted.

20. A few respondents supported the entity perspective, and a few other respondents supported the proprietary perspective. Yet several other respondents noted that this issue has not been fully debated and, therefore, could not make a decision.

21. A few respondents noted that the ED seemed to imply the entity perspective, but was not clear. One respondent asked the Boards to provide the reasons for having deleted the description of the perspective and whether the Boards intend to retain the preference for the entity perspective as proposed in the DP.

Description of a Reporting Entity

General Comments (Category A)

22. Most respondents generally agreed with the proposed description of a reporting entity.

23. Several respondents noted that the description of a reporting entity should not repeat the objectives of financial reporting but simply provide a reference to that chapter. One respondent noted that if the description of a reporting entity incorporated the objectives of financial reporting, it should also incorporate the qualitative characteristics.

24. Several respondents disagreed with the Boards' proposed description. These respondents suggested the following alternatives:

    (a) Use the description in the existing IASB *Framework*

(b) Describe a reporting entity as a legal entity

(c) Governments and regulators should describe what a reporting entity is and, therefore, the Boards should not provide any description.

25. Several respondents noted that the Boards described the term *reporting entity* without describing the term *entity*.

26. A few respondents suggested that the Boards should begin with a legal entity and then seek to broaden the concept based on the usefulness of information to users.

27. A few other respondents suggested that, if all entities are not *reporting* entities, the Boards should describe *non-reporting* entities.

Description or Definition (Category A)

28. A few respondents who commented on this issue agreed with the Boards that the conceptual framework should describe, rather than precisely define, a reporting entity.

29. However, several respondents disagreed and suggested that the Boards define a reporting entity. These respondents noted the following:

(a) Merely describing the concept as a description implies that the concept is less important than concepts defined in other chapters.

(b) In its ordinary sense, a description of an item does not necessarily identify the essential nature of the item. Accordingly, descriptions cannot logically be used to develop the conceptual framework and accounting standards. A concept of an item is synonymous with the essential nature of an item, and the proposed "description" is more than a description of it.

Circumscribed Area (Category B)

30. Several respondents who commented on this issue noted that term *circumscribed area* was vague and unclear. Most respondents did not comment on this issue.

Economic Activity (Category A)

31. Several respondents noted that the term *economic activities* in the ED was an improvement over the term *business activity* in the DP.

32. A few other respondents noted that the term *economic activities* was not defined and, accordingly, that may have unintended consequences.

33. Yet several other respondents noted that economic activities do not of themselves undertake anything that the description would have them do. These respondents stated that a reporting entity must have an identifiable body or structural basis. A few respondents suggested focusing on economic resources (and claims on those resources).

Financial Information (Category B)

34. A few respondents asked why the ED referred to the term *financial information* instead of the term *financial statements* or *financial reporting*. These respondents suggested that references be changed or the reason be explained.

Potential to be Useful (Category A)

35. A few respondents noted that there is a significant difference between something being ‘potentially useful’ compared to circumstances where a user is ‘dependent’ on the financial information and preferred that users be dependent on general purpose financial reporting.

36. Another respondent noted that, without some measure of materiality, the term *potential* could result in a significant burden on the preparers of accounts by substantially increasing the number of reporting entities for which financial statements would be required.

Users (Category C)

37. A few respondents suggested that the scope of users be narrowed to include only "existing and potential equity holders." Another respondent noted that it disagreed with the proposed scope of users because it implied the entity perspective.

38. Several respondents suggested that the scope of users be broadened to include governments and employees. Some respondents suggested replacing the term *other creditors* with a more general term such as *other users, other resource providers,* and *other stakeholders*.

39. One respondent noted that the other users of IFRSs are acknowledged in the IFRS Foundation's Constitution, which in Section 2 states, "enforceable and globally accepted financial reporting standards…help investors, other participants in the world's capital markets and other users of financial information make economic decisions."

40. Several respondents noted that the DP had used the term *other capital providers* to ensure that the objective of financial reporting applied equally to not-for-profit entities, which do not have investors as primary users and that the replacement in the ED will cause problems for not-for-profit entities.

Who Cannot Directly Obtain the Information They Need (Category C)

41. Several respondents noted that the description of a reporting entity should not be affected by whether the users can directly obtain information. Some of these respondents noted that the important factor was that the users were "dependent" on general purpose financial reports.

Management and the Governing Board (Category C)

42. Several respondents noted that a reporting entity may not have management or a governing board, for example, when the reporting entity is a portion of an entity or a sole proprietorship. One respondent suggested that the Boards clarify that such

management or a governing board may exist at a different level (for example, at the ultimate parent level). Another respondent suggested that the Boards clarify that this role or function could be carried out by one or more individuals or teams, whether explicitly or implicitly.

Efficient and Effective Use of the Resources Provided (Category C)

43. A few respondents noted that the phrase “efficient and effective” was unnecessary. One respondent noted that this phrase was necessary. Another respondent noted that only existing shareholders were interested in the efficient and effective use of the resources.

Control (Category A)

44. A few respondents noted that the description of a reporting entity fails to incorporate the concept of control. Although the ED had referred to control in terms of a group reporting entity and consolidations, the ED had not used control in terms of defining a single reporting entity. These respondents noted that the boundaries of a reporting entity are logically determined on the basis of the economic activities that it controls.

45. One respondent suggested that the Boards include in the description of a reporting entity that a reporting entity would not exclude economic activities that are controlled at the same or lower level within the group.

Ongoing Evaluation (Category A)

46. A few respondents noted that the ED makes no reference to the frequency with which an institution should evaluate the bounds of a reporting entity and suggested that the Boards clarify that such evaluation should be made on an ongoing basis.

Features of a Reporting Entity

Economic Activities that Are Being Conducted, Have Been Conducted, or Will Be Conducted (Category B)

47. Most respondents agreed that a reporting entity should include inactive entities and entities that have not begun to operate. One respondent noted that financial information about an entity that may never become active could still have the potential to be useful to capital providers.

"Can be Objectively Distinguished" and "Not Commingled" (Category B)

48. Many respondents noted that the notions of "commingling" and "can be objectively distinguished" were vague and required additional guidance. Many of these respondents noted that the term "commingle" does not appropriately convey the Boards' intention and thus should not use it.

49. Some respondents noted that two legal entities may significantly commingle their economic activities without one entity exercising control over another and, in such case, these entities should be two reporting entities.

50. One respondent asked the Boards to clarify whether the ability to objectively distinguish the economic activities refers to the conceptual ability or practical ability.

Necessary but Not Always Sufficient (Category A)

51. Paragraph RE3 of the ED stated that the three features of a reporting entity were necessary but not always sufficient to identify a reporting entity. Many respondents asked the Boards to clarify the intent of this sentence.

Legal Entity

General Comments (Category A)

52. Several respondents agreed that a legal entity may not qualify as a reporting entity.

53. However, many respondents (mostly IASB constituents) noted that, while they agree that reporting entities should not be limited to legal entities, all legal entities that are required to report should qualify as a reporting entity. Some respondents noted that all legal entities should be reporting entities, regardless of whether they were required to report.

54. Many respondents noted that many jurisdictions require all legal entities to prepare financial statements in accordance with IFRSs and were concerned that some of these entities may be precluded from presenting general purpose financial statements prepared in accordance with IFRSs because they do not qualify as a reporting entity.

Portion of an Entity

General Comments (Category A)

55. Most respondents agreed that a portion of an entity could qualify as a reporting entity if the economic activities of that portion can be distinguished objectively from the rest of the entity and financial information about that portion has the potential to be useful in making decisions about providing resources to that portion.

56. Some respondents agreed with qualifications. Those qualifications include:

    (a) Provide more guidance in this area (See paragraphs 59 and 60 of this paper)

    (b) Refer to the three features in paragraph RE3 rather than listing features that are slightly different from that listed in paragraph RE3

(b) Require the portion to disclose the entity to which that portion belongs

(c) Recognize that a parent is a portion and allow stand-alone parent-only financial statements to be presented

(d) Require that the portion meets the definition of an *entity* (See paragraph 9 of this paper)

(e) Recognize that a proportionate portion of an entity is a portion.

57. Some respondents disagreed because there would be too many portions that would be required to present general purpose financial statements.

58. One respondent suggested that a portion of an entity should be considered a separate entity for the purposes of applying the provisions of relevant accounting standards, for example, to determine whether the reporting entity should consolidate that portion of another entity (for example, silos), but a portion of an entity should not be considered a reporting entity.

Need for Clarification (Category E)

59. Many respondents seemed to view a portion of an entity to be synonymous with either a reportable segment or an operating segment as defined in segment reporting standards. Some of these respondents noted that portions should be discussed in the segment reporting standards. Other respondents asked the Boards to clarify the relationship between a portion of an entity and a segment.

60. Respondents also asked for clarification in the following areas:

(a) Whether the portion of "an entity" referred to a portion of a legal entity or a portion of a reporting entity

(b) Whether a portion of a reporting entity includes the consolidation of some but not all subsidiaries

(c) Whether portions of two different legal entities can be combined as a reporting entity.

Definition of Control

General Comments (Category A)

61. Most respondents agreed with the proposed definition of control. Many of these respondents noted that they agreed with the Boards' decision to define control in general terms only in the conceptual framework.

62. Several respondents disagreed with the proposed definition for the following reasons:

    (a) Control should be defined in a more general sense at a higher, more general level within the conceptual framework (See paragraph 18 of this paper)

    (b) It should be clarified that control must be exercised

    (c) The concept of control in the current IAS 27 should be used

    (d) Control must be present

    (e) The issue of agent versus principal and its role in the consideration of control should be addressed

    (f) Temporary control should be excluded.

63. Several respondents (all IASB constituents) stated that the definition in the conceptual framework should be exactly the same as that in the forthcoming consolidation standard.

Power (Category A)

64. One respondent suggested that the Boards replace their definition of *power* with the notion of power in the Australian conceptual framework, "capacity to dominate decision making, directly or indirectly," because this notion better identifies the core concept of control and does not require the direct exercise of power.

Benefits (Category A)

65. One respondent suggested the Boards use the term *returns*, as in the IASB's ED10, *Consolidated Financial Statements*.

66. Another respondent suggested that the Boards replace the phrase *generate benefits* with the phrase in the Australian conceptual framework, "achieving the objectives," because this phrase would include service delivery objectives, which is more appropriate for not-for-profit entities than *generate benefits*. Several other respondents (mostly not-for-profit entities) noted that the benefits should not be limited to financial or economic benefits.

67. A few respondents stated that the notion of "negative benefit" was not well understood. These respondents suggested that the Boards replace this notion with "risk of loss."

Risk and Rewards (Category A)

68. Several respondents noted that, while they agreed that on its own the risks and rewards model is not conceptually robust, it would be useful for the Boards to explain that control of an entity includes the notion of risks and rewards.

Paragraph RE8 (Category A)

69. Paragraph RE8 of the ED states that, if one entity controls another entity, the cash flows and other benefits flowing from the controlling entity to its equity investors, lenders, and other creditors often depend significantly on the cash flows and other benefits obtained from the entities it controls, which in turn depend on those entities' activities and the controlling entity's direction of those activities.

70. Several respondents noted that control should not be defined based on dependence on cash flows and other benefits. These respondents noted that entities may be dependent on cash flows and other benefits obtained from joint ventures, but such joint ventures should not be consolidated by their venturers.

71. A few respondents noted that, if control were to be defined based on dependence on cash flows and other benefits, that would mean that jointly controlled entities also should be included in consolidated financial statements.

Joint Control and Proportionate Consolidation (Category A)

72. Several respondents stated that the Boards should not dismiss the use of proportionate consolidation for jointly controlled entities. Many of these respondents noted that the Boards have not fully explained the rationale for concluding that proportionate consolidation should not be considered when determining the boundaries of a reporting entity.

Consolidated Financial Statements

General Comments (Category A)

73. Several respondents noted that it is not the responsibility of the Boards to decide which entities have to prepare financial statements, consolidated or otherwise, and that such responsibility lies solely with governments and regulators.

74. Most respondents agreed that an entity that controls one or more other entities should present consolidated financial statements. A few respondents noted that both consolidated financial statements and parent-only financial statements should be presented.

75. Some respondents agreed with qualifications. Those qualifications include:

    (a) Exempt entities from presenting consolidated financial statements if the entity itself is controlled by another entity (that is, an entity is an intermediate parent) (see paragraphs 77 to 79 of this paper)

    (b) Exempt investment companies from presenting consolidated financial statements (see paragraph 80 of this paper)

(c) Private companies should be provided a choice of presenting either parent-only financial statements, consolidated financial statements, or both (see paragraph 82 of this paper)

(d) Include the guidance in the standards, not the conceptual framework.

76. A few respondents disagreed because, in their view, parent-only financial statements, consolidating financial statements, or both, are more useful than consolidated financial statements.

Intermediate Parents (Category A)

77. IAS 27, *Consolidated and Separate Financial Statements*, includes an exemption that permits intermediate parents not to prepare consolidated financial statements in certain circumstances.

78. Many respondents (mostly IASB constituents) suggested the Boards reaffirm their position that there are exceptions to the general requirement of preparing consolidated financial statements for an entity that controls other entities.

79. A few respondents suggested the Boards address, at the conceptual level, why it may be appropriate for certain intermediate parent companies to be exempted from preparing consolidated financial statements.

Investment Companies (Category A)

80. Several respondents noted that consolidated financial statements of investment companies were not useful. Some of these respondents noted that the Boards have tentatively decided that there should be an exception to consolidation for investment companies, and the Boards should include additional guidance with respect to this potential scope exception of the control concept.

81. One respondent noted that the consolidation of controlled entities was a unit-of-account issue. That is, the appropriate unit of account for entities controlled by

investment companies is the investment themselves, whereas the unit of account for other entities is the assets and liabilities of the controlled entities.

Private Companies (Category A)

82. A few respondents noted that the needs of the users of financial reports of private companies were diverse and that consolidated financial statements do not necessarily provide information that is the most useful to these users. These respondents suggested that private companies should be able to choose from presenting either consolidated financial statements or parent-only financial statements, based on user needs.

Parent-only Financial Statements

General Comments (Category A)

83. A few respondents who commented on this issue agreed with the Boards' proposal that parent-only financial statements provide useful information if they are presented together with consolidated financial statements.

84. Several respondents disagreed with the Boards' proposal, for the following reasons:

    (a) With appropriate controls in place, entities should be permitted to present their parent-only financial statements on a different date or in a different document than their consolidated financial statements (see paragraph 86 of this paper)

    (b) Parent-only financial statements are useful on their own and, accordingly, they should not be required to be accompanied with consolidated financial statements

(c) It is inconsistent with certain jurisdictions where governments and regulators require the presentation of parent-only financial statements (without accompanying consolidated financial statements)

(d) Both consolidated financial statements and parent-only financial statements should be required when an entity controls one or more other entities

(e) The type of financial statements to be prepared by the reporting entity is a standards-level issue.

85. Several respondents asked the Boards to clarify the following:

(a) Whether the Boards intend to impose any restrictions on the production of parent-only financial statements prepared in accordance with GAAP other than IFRS (see paragraph 87 of this paper)

(b) Whether the parent entity qualifies as a reporting entity (see paragraph 88 of this paper)

(c) Whether parent-only financial statements, individual financial statements, and separate financial statements mean the same thing

(d) Whether the financial statements of an entity with no controlled entities are parent-only financial statements or consolidated financial statements.

Together with Consolidated Financial Statements (Category A)

86. Several respondents noted that, in several EU member states, the deadline for filing consolidated financial statements was different from the deadline for filing parent-only financial statements. These respondents suggested that it should be sufficient for consolidated financial statements to be made available if parent-only financial statements are presented and the availability of consolidated financial statements is communicated in the parent-only financial statements.

GAAP Used for the Preparation of Parent-Only Financial Statements (Category E)

87. A few respondents (all IASB constituents) noted that, in many jurisdictions, parent-only financial statements are prepared in accordance with local (non-IFRS) GAAP. These respondents noted that it would be inappropriate to impose restrictions on the production of these parent-only financial statements as part of the conceptual framework.

Whether the Parent Entity Qualifies as a Reporting Entity (Category E)

88. Several respondents asked the Boards to clarify whether the parent entity qualifies as a reporting entity by itself. One respondent asked if the parent entity could be viewed as a portion of the consolidated entity and, if so, management could circumvent the requirement to present consolidated financial statements for that parent entity.

Combined Financial Statements

General Comments (Category A)

89. Several respondents welcomed the Boards' intent to discuss combined financial statements in the conceptual framework. Another respondent noted that combined financial statements should be discussed at the standards level. Yet another respondent noted that combined financial statements are special purpose financial statements.

90. One respondent noted that it was unclear whether combined financial statements should include all commonly controlled entities. This respondent suggested that that should not be the case.

Whether A Combined Entity Qualifies as a Reporting Entity (Category E)

91. One respondent noted that it was not clear whether a combined entity is considered a reporting entity, or whether financial statements for such an entity might still be useful, but does not qualify as a reporting entity.

Restriction to Entities under Common Control (Category A)

92. Many respondents disagreed with the Boards' proposal that combined financial statements should be restricted to the combination of entities under common control. These respondents noted that this proposal seemed to be inconsistent with the broad description of a reporting entity and that the Boards have not provided enough explanation for this restriction.

93. In the view of those respondents who disagreed with the Boards' proposal, combined financial statements could also be appropriate for some groups where there is no control relationship between any of the entities of the group. These respondents noted that, in several countries, combined financial statements are prepared for specific structures of groups of mutual banks.

94. A few respondents noted that it was not clear whether the proposal meant to address situations where there is no entity identifiable as the controlling entity.

Common Control and Common Management (Category A)

95. One respondent noted that combined financial statements may provide useful information about entities under common management in addition to entities under common control. Another respondent noted that it may be appropriate to restrict the use of combined financial statements to a set of commonly-directed entities to ensure consistency with the objective of general purpose financial reporting.

96. Yet another respondent noted that the ED states that combined financial statements may be appropriate for entities under common control, whereas paragraph 810-10-55-1B of the FASB *Accounting Standards Codification*™ states

that combined financial statements may also be appropriate for entities under common management. This respondent asked the Boards to resolve this inconsistency.

Entities Controlled by the Combining Entities (Category A)

97. A few entities asked the Boards to clarify that, to the extent one of the combining entities itself controls one or more entities, the combined financial statements should include all of those controlled entities.

Standards-Level Project on Consolidation (Category F)

98. Most respondents agreed that the completion of the reporting entity concept should not be delayed until the common standards on consolidation have been issued. Several respondents further noted that the conceptual framework should be given higher priority in the Boards' agenda.

99. However, several respondents disagreed and suggested that the Boards wait until the common standards on consolidation is completed to ensure that the conceptual framework and the standards are consistent.

100. A few respondents noted that the proposed chapter is not useful and, accordingly, suggested that the Boards not issue the reporting entity chapter.

Other Issues

Authoritative Status of the Conceptual Framework (Category C)

101. A few respondents (all IASB constituents) noted that they support the IASB maintaining the authoritative status of the conceptual framework and asked the FASB to reconsider the authoritative status of its conceptual framework. Another respondent suggested that the conceptual framework be accorded the highest authoritative status in the GAAP hierarchy.

Finalization of Chapters (Category C)

102. Several respondents noted that individual chapters of the conceptual framework should not be finalized (at least made effective) until all of the chapters are finalized. Furthermore, some of these respondents asked the Boards to expose the conceptual framework for comment in its entirety.

103. A few other respondents noted that they supported the Boards' policy that, if a chapter later proves to be in conflict with any chapter already completed, the Boards would resolve the conflict from the viewpoint of consistency of the conceptual framework as a whole.

Need for Standards Level Guidance (Category D)

104. A few respondents noted that standards-level guidance should be developed in the following areas before the reporting entity chapter of the conceptual framework becomes effective:

    (a) Portion of an entity (that is, how to apply the "objectively distinguished" principle)

    (b) Combined financial statements.

Dual Listed Companies (Category D)

105. A few respondents noted that it is unclear how the reporting entity concept should be applied to dual listed companies, stapled entities, and similar entities. These respondents noted that, under current IFRS, the dual-listed company, stapled-entity or similar entity identifies a parent entity (which is one of the two entities) and produces consolidated financial statements. In these respondents' view, this accounting did not represent the underlying substance of these types of arrangements.

Distinction between Reporting Entity and Its Shareholders (Category D)

106. One respondent noted that the description of the reporting entity does not adequately describe the boundary between shareholders of the reporting entity and the reporting entity itself. This respondent noted that the boundary is very important as the basis for developing standards, particularly when classifying an instrument as debt or equity.

Summary of *Category A* Issues

107. The staff expects to address the following questions at the November joint Board meeting:

(a) Should the final chapter discuss the entity perspective and the proprietary perspective? (paragraphs 19-21 of this paper)

(b) Should the final chapter describe an *entity* before describing a *reporting entity*? (paragraphs 9 and 25 of this paper)

(b) Should the final chapter *define* or *describe* a reporting entity? (paragraphs 28-29 of this paper)

(d) Should any changes be made to the description of a reporting entity in the ED? (paragraphs 22-27, 31-33, 35-36, and 44-46 of this paper)

(e) Should any changes be made to the features of a reporting entity? (paragraphs 47-50 of this paper)

(f) Should the final chapter state that the features of a reporting entity are necessary but not always sufficient? (paragraph 51 of this paper)

(g) Should all legal entities qualify as a reporting entity? (paragraphs 52-54 of this paper)

(h) Should a portion of an entity qualify as a reporting entity? (paragraphs 55-58of this paper)

(i) Should the final chapter discuss exceptions to preparing consolidated financial statements? (paragraphs 73-82 of this paper)

(j) Should any changes be made to the definition of control? (paragraphs 61-67 and 69-71 of this paper)

(k) Should the final chapter discuss risks and rewards? (paragraph 68 of this paper)

(l) Should the final chapter discuss joint control and proportionate consolidation? (paragraph 72 of this paper)

(m) Should parent-only financial statements always be accompanied by consolidated financial statements? (paragraphs 83-86 of this paper)

(n) Should the final chapter discuss combined financial statements? (paragraphs 89-90 of this paper)

(o) Should the use of combined financial statements be limited to entities under common control? (paragraphs 92-96 of this paper)

(p) Should the final chapter clarify that combined financial statements include all entities controlled by the combining entities? (paragraph 97 of this paper)

Questions for the Boards
1. Have the staff identified the issues to be discussed at the November meeting appropriately? If not, which issues are inappropriate or missing?
2. Should a roundtable or other form of additional outreach be performed for the reporting entity phase of the conceptual framework project?