

November 2012

## International Financial Reporting Standards



# Conceptual Framework: The Reporting Entity

Agenda paper 4A

Education Session – November 2012

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

- Why develop a reporting entity (RE) concept?
- What does existing Framework say?
- Status of previous discussions
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# Why develop a reporting entity concept?

The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential lenders and other creditors in making decisions about providing resources to the entity  
(*Conceptual Framework OB2*)

So what is a reporting entity?

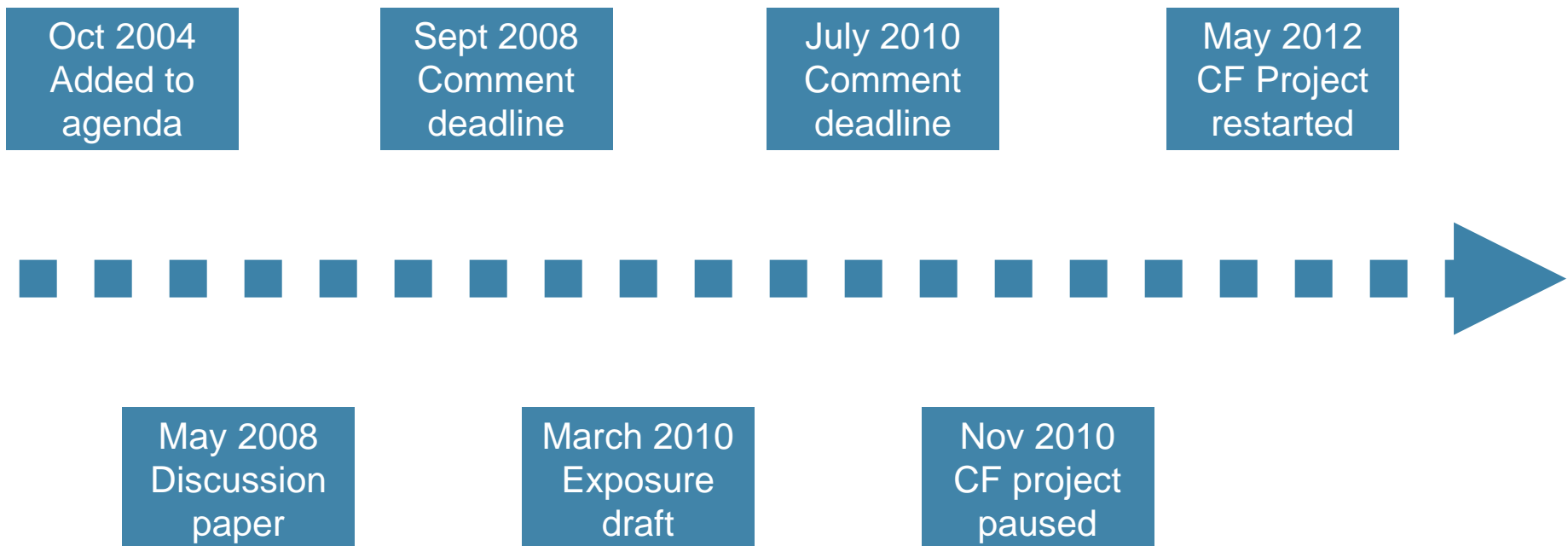
# What does existing Framework say?

- Before it was amended in 2010, the Framework stated:

*A reporting entity is an entity for which there are users who rely on the financial statements as their major source of financial information about the entity (paragraph 8).*

- This paragraph was deleted when the framework was amended in 2010.

# Status of previous discussions



# The Discussion Paper

Issue	Preliminary views	Responses
Should <i>reporting entity</i> be described or defined?	Describe	Most agreed with this preliminary view
Should <i>reporting entities</i> be restricted to legal entities?	Do not restrict to legal entities	Most agreed with this preliminary view
Discussed concept of a <i>group reporting entity</i> and 3 approaches to determining a <i>group reporting entity</i> : <ul style="list-style-type: none"><li>• Control</li><li>• Common control</li><li>• Risks and rewards</li></ul>	<ul style="list-style-type: none"><li>• Control should be used to determine group reporting entity</li><li>• Common control may be useful in some situations but this is a standards level issue</li></ul>	<ul style="list-style-type: none"><li>• Most agreed that the composition of a group reporting entity should be based on control</li><li>• Many agreed common control may be useful in some situations</li></ul>

# The Discussion Paper

Issue	Preliminary views	Responses
Perspective of group financial statements	Group reporting entity perspective (consistent with entity perspective of objective of financial statements)	Majority agreed with this preliminary view
Do parent-only financial statements meet objective of financial reporting?	<ul style="list-style-type: none"><li>• Consolidated meet objective</li><li>• Different views on parent-only</li><li>• CF should not preclude parent-only if in same report as consolidated</li></ul>	<ul style="list-style-type: none"><li>• Majority agreed that CF should not preclude parent-only financial statements</li><li>• Several stated that consolidated financial statements should not be required when parent-only presented</li></ul>

The DP also discussed the meaning of control in the context of one entity having control over another



# The Exposure Draft - Contents

- The ED:
  - Described a reporting entity
  - Discussed consolidated financial statements
  - Discussed other types of financial statements:
    - Parent only
    - Combined
- The ED did not:
  - Define a reporting entity
  - Discuss perspective (Entity vs Proprietary)
  - State who must or should prepare financial statements



# The ED – Description of reporting entity

- Three features:
  - Economic activities are being, have been or will be conducted
  - Economic activities can be objectively distinguished from those of other entities and the economic environment
  - Financial information about those economic activities has the potential to be useful in:
    - Making decisions about providing resources
    - Assessing whether effective and efficient use has been made of resources provided

Three features are necessary but not always sufficient to identify a reporting entity

# The ED – Description of reporting entity

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- Legal entity
  - A reporting entity does not need to be a legal entity
    - A portion of a legal entity (e.g. a branch) could qualify
  - A legal entity is not necessarily a reporting entity
    - Most if not all legal entities have potential to qualify as a reporting entity

If an entity controls one or more entities and prepares financial reports, it should present consolidated financial statements

In addition the ED states:

- That an entity controls another entity when it has the power to direct the activities to generate benefits for (or limit the losses to) itself
- When two or more entities have the power to direct the activities of another entity, none of the entities would present information on a consolidated basis
- Significant influence over another entity is not the same as control

# The ED – Other types of financial statements

*Parent-only* financial statements might provide useful information if they are presented together with consolidated financial statements

*Combined* financial statements might provide useful information about commonly controlled entities

- Comment letter summary presented to Board in October 2010.
- Most agreed (generally) with:
  - Proposed description of reporting entity
  - Portion of an entity can be a reporting entity
  - An entity that controls another entity should present consolidated financial statements
  - Discussion of combined financial statements

- Issues raised included:
  - Purpose of reporting entity chapter
  - Perspective of financial statements (entity vs proprietary)
  - Definition vs description of a reporting entity
  - Whether all legal entities should qualify as reporting entities
  - Must consolidated financial statements be presented together with separate financial statements?
  - Should control as a general concept be defined?
  - Should use of combined financial statements be limited to entities under common control?