

STAFF PAPER

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REG IASB Meeting

Project	Conceptual Framework		
Paper topic	Draft discussion paper Appendix - Reporting entity		
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This paper is a very early draft of part of the Conceptual Framework discussion paper. It has been prepared by the staff for discussion by the IASB. Issues discussed and conclusions reached will be subject to change.

Appendix - Reporting Entity

1. In May 2008, the IASB issued *Preliminary Views on an Improved Conceptual Framework for Financial Reporting – The Reporting Entity* a joint discussion paper with the US Financial Accounting Standards Board (the FASB). This discussion paper set out preliminary views of the IASB and FASB (the boards) on the reporting entity concept.
2. The boards considered comments received on this discussion paper as they developed the exposure draft *Conceptual Framework for Financial Reporting – The Reporting Entity* issued in March 2010. The comment period for the exposure draft closed in July of 2010 and a comment letter summary was presented to the boards in October 2010. Work on the Conceptual Framework was suspended in November 2010. Consequently, the Reporting Entity ED was not finalised.
3. Because a discussion paper and exposure draft have already been issued on the reporting entity, the IASB believe it is unnecessary to include a discussion of the issues associated with the reporting entity in this discussion paper. Instead the IASB intend to review the reporting entity proposals, including comments

received on the 2010 ED, as it develops an exposure draft on a revised Conceptual Framework.

4. This appendix summarises both the proposals in the 2010 exposure draft and the comments received.

Summary of the exposure draft *Conceptual Framework for Financial Reporting – The Reporting Entity* issued in March 2010

5. The exposure draft discussed the following:
 - (a) Description of a reporting entity;
 - (b) Consolidated financial statements;
 - (c) Other types of financial statements.

Description

6. The exposure draft:
 - (a) Described a reporting entity as 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 management and the governing board of that entity have made efficient and effective use of the resources provided;
 - (b) Explained that most, if not all, single legal entities have the potential to be reporting entities. However, a legal entity may not qualify as a reporting entity if, for example, there is no basis for objectively distinguishing its economic activities from those of another entity.
 - (c) Stated that a portion of an entity could qualify as a reporting entity:
 - (i) if the economic activities of that portion can be distinguished objectively from the rest of the entity; and

- (ii) financial information about the portion of the entity has the potential to be useful in making decisions about providing resources to that portion of the entity.

Consolidated financial statements

7. The exposure draft described control of another entity as the power to direct the activities of that other entity to generate benefits for the controlling entity.
8. The exposure draft stated that if an entity controls one or more entities and prepares financial statements, it should present consolidated financial statements because consolidated financial statements are most likely to provide useful information to the greatest number of users.
9. The exposure draft also stated that:
 - (a) If two or more entities share the power to direct the activities of another entity, none of the entities individually controls the other entity.
Accordingly, none of these entities would present information about itself and the other entity on a consolidated basis.
 - (b) If one entity has significant influence over another entity it does not control that other entity.

Other types of financial statements

10. The exposure draft explained that 'parent-only' financial statements (ie financial statements that include controlled entities as investments rather than consolidating those entities) might provide useful information if they are presented together with consolidated financial statements.
11. In addition, the exposure draft stated that combined financial statements (that is, financial statements that combine rather than consolidate the results of two or more entities) might provide useful information about entities under common control.

Summary of comments received on the March 2010 Exposure Draft

12. The following is a high-level summary of comments received on the March 2010 Reporting Entity exposure draft. A more detailed comment letter summary was presented to the IASB at its October 2010 meeting and can be obtained from the IASB's website.

Overall comments

Purpose of the chapter

13. Respondents commented that the ED did not clearly state the purpose of the reporting entity chapter. In particular they stated it was unclear whether the ED was proposing who *must*, *should* or *could* prepare general purpose financial reports. These respondents asked the IASB to clarify the purpose of the reporting entity chapter.

Entity perspective and proprietary perspective

14. The Discussion paper, *Preliminary Views on an Improved Conceptual Framework for Financial Reporting: The Reporting Entity* included a discussion of the entity perspective and the proprietary perspective and proposed that the entity perspective be adopted. However, this discussion was not carried forward to the ED. Many respondents requested that the reporting entity chapter should include a discussion of the perspective from which financial statements are presented. Some respondents expressed support for the entity perspective while others expressed support for the proprietary perspective.

Description of a reporting entity

15. Most respondents to the ED generally agreed with the proposed description of a reporting entity. However, the following alternatives were suggested:
- (a) Use the description of a reporting entity in the existing IASB *Framework*;
 - (b) Describe a reporting entity as a legal entity;

- (c) Leave the description of a reporting entity to governments and regulators.
- 16. Many respondents stated that all legal entities that are required to report should qualify as a legal entity and some respondents stated that all legal entities should be reporting entities, regardless of whether they are required to report.
- 17. Most respondents agreed that a portion of an entity could qualify as a reporting entity if the economic activities of the portion can be objectively distinguished from the rest of the entity and the financial information about that portion has the potential to be useful to users.
- 18. In addition, respondents suggested a number of clarifications and amendments to the proposed description of a reporting entity.

Consolidated financial statements

- 19. Most respondents agreed with the proposed description of control of an entity¹. However, many stated that the concept of control is a pervasive notion and, therefore, should not be defined in the reporting entity chapter. Instead control should be defined at a higher more general level in the conceptual framework².
- 20. Most respondents agreed that an entity that controls one or more other entities should present consolidated financial statements. However, several respondents stated that it is not the responsibility of the IASB to decide which entities have to prepare consolidated financial statements because such responsibility lies solely with governments and regulators.

Other types of financial statements

Parent-only financial statements

- 21. Several respondents disagreed with the statement in the ED that parent-only financial statements provide useful information only if they are presented together with consolidated financial statements for the following reasons:

¹ Control of an investee has since been defined in IFRS 10 *Consolidated Financial Statements*.

² The Section 2 of this discussion paper includes a discussion of the control concept.

- (a) Entities should be permitted to present parent-only financial statements on a different date, or in a different document, from their consolidated financial statements;
- (b) Parent-only financial statements are useful on their own;
- (c) Some governments and regulators require the presentation of parent-only financial statements without accompanying consolidated financial statements.

Combined financial statements

- 22. Many respondents to the ED disagreed with the proposal that combined financial statements should be restricted to the combination of entities under common control. The suggested examples of other situations where combined financial statements may be useful, including:
 - (a) entities under common management;
 - (b) groups of mutual banks.

Dual Listed companies

- 23. A few respondents to the ED noted that it is unclear how to apply the reporting entity concept to dual listed companies, stapled entities and similar entities.

