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Organización Internacional de Comisiones de Valores
International Organisation of Securities Commissions
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Organização Internacional das Comissões de Valore

December 12, 2008

Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Reporting Entity
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Reporting Entity

Dear IASB Members:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (Standing Committee No. 1) thanks you for the opportunity to provide our comments regarding the International Accounting Standards Board and the Financial Accounting Standards Board (the Boards) Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Reporting Entity (the PV).

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Standing Committee No. 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of Standing Committee No. 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

General Observation: Notwithstanding our comments on the PV as described below, Standing Committee No. 1 is supportive of the Boards' overall conclusions outlined in the PV. However, we remain concerned about the Boards' overall approach to developing and adopting individual framework chapters. We are concerned that a piecemeal approach to developing and approving the individual chapters may jeopardize the coherent and consistent application of the Framework as a whole. Therefore, we recommend that the Boards reconsider their piecemeal approach or at least provide a greater discussion on the potential implications that each completed chapter may have on future chapters and develop a plan to amend the existing chapters expediently, if and when necessary.

PV Section 1: The Reporting Entity Concept: Standing Committee No. 1 supports the Boards' conclusion that the determination of the reporting entity should not be limited by legal boundaries and structures. Therefore, we support the development of the conceptual concept of a circumscribed area as a broad term that acknowledges the objectives of financial reporting as its underlying basis. Standing Committee No. 1 acknowledges that legal structures may be helpful in the identification of a reporting entity but that the determination of a reporting entity

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requires judgment and should not be limited by legal boundaries. This notion becomes particularly evident when business activities are performed through means other than legally organized structures. Therefore, we also agree that the specific guidance on how to consider such boundaries can be addressed at the standards level. We acknowledge that paragraphs 23 through 28 attempt to address the link between the reporting entity concept and the objectives of financial reporting. However, we do believe the Boards' views could be enhanced by augmenting the current discussion, which focuses on the needs of current and potential equity investors, lenders and other capital providers, with a discussion focusing on how preparers and auditors would consider the specific fundamental and enhancing qualitative characteristics of financial reporting when identifying a circumscribed area that represents the reporting entity.

As an editorial note to Section 1, the Boards should consider revising the second sentence to paragraph 21(d). Typically creditors of a partnership have recourse to personal assets of the 'general' partners. However, recourse to 'limited' partners is often constrained up to the amount of their required capital contribution.

PV Section 2: Group Reporting Entity: Complementing our comments above, we support the Boards' conclusion to focus on control as the conceptual basis for determining the composition of the group reporting entity. However, we also believe the concepts of the risks and rewards model is an important component of the control objective, as evidenced by the Boards' own draft definition that explicitly contemplates 'access to benefits from the entity (or to reduce the incidence of loss)'. To that end, we believe the PV's discussion can be improved by incorporating concepts of the risks and rewards model into the description of what the terms 'benefits' and 'incidence of loss' mean. Both of these terms will become critical as the Boards, at the standards level, attempt to craft consolidation guidance using the concept of control as a foundation. Similar to our recommendation in PV Section 1, we recommend that the Boards' continue to develop their definitions of control, benefits and incidence of loss by referencing the necessary fundamental and enhancing qualitative characteristics of financial reporting.

We also believe the Boards should clarify their preliminary view that "...the reporting entity concept should first determine what constitutes the 'entity' that is reporting, and only then should the asset definition (and other element definitions) be applied to that entity" (paragraph 62). It is not clear to us whether this view would effectively eliminate the consolidation of "silos" when a reporting entity may control certain assets of an otherwise non-controlled entity. We are concerned that this explicit view may hamper the development of standards level debate and standards improvement relative to certain entities, such as special purpose entities.

Finally, we agree with the Boards' conclusion that the controlling entity model is preferable to the common control model. However, we also acknowledge that the common control model, in some circumstances, may continue to present useful information to certain capital providers of the controlled entities. Therefore, we believe that the conceptual framework should contemplate that the common control model can, in some circumstances, co-exist with the primary controlling model.

PV Section 3: Parent Entity Financial Reporting: Standing Committee No. 1 supports the Boards' conclusion that consolidated financial statements provide useful information to capital providers. We also believe that, in some circumstances, parent-only financial statements are capable of providing decision-useful information to capital providers. Therefore, we fully support the Boards' view that the conceptual framework should not preclude the presentation of parent-only financial statements and in fact should clarify that in some circumstances both types of presentations may be necessary to meet the objectives of financial reporting.

We would like to point out that the Boards' final discussion and views regarding the group reporting entity should ultimately align with the Boards' final descriptions of the 'entity perspective' as described in the Exposure Draft: Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information. We appreciate that the Boards may have intended the terms to be the same, however, the language may not be sufficiently aligned to prevent such confusion.

PV Section 4: Control Issues: We support the Boards' conclusion that determining whether control exists involves assessing all the existing facts and circumstances. There are no single facts or circumstances, including the existence of simple majority voting rights, which could serve as sufficient evidence, unto itself, that one entity has control over another in all cases. We also agree that that concept of control should contemplate and include the concept of temporary control and exclude circumstances where control does not exist but may manifest itself in the future by way of the conversion or exercise of a contractual right to do so. Further, we agree that control cannot be represented simply by a 'significant influence' or through a combination of entities (i.e., only one entity can control another). However, we believe the Boards' descriptions of control can be improved. For example, another important concept that is not sufficiently developed in the PV is the notion of 'de facto' control. We have observed preparers and auditors struggle with how the concept of de facto control should be evaluated when considering the totality of existing facts and circumstances. The ambiguity is particularly evident when an investor may effectively obtain control solely because other investors choose not to actively participate in decision making matters, such as by abstaining from voting or electing to not exercise other contractual rights. Appreciating the Boards' conclusions on latent control (paragraphs 151—156) and temporary control (paragraph 147), we believe the Boards should consider further clarifying how de facto control may be factored into the Boards' proposed definition of control.

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We appreciate your thoughtful consideration of the comments raised in this letter. If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact me at 202-551-5300.

Sincerely,

Julie A. Erhardt
Chairman
IOSCO Standing Committee No. 1