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Organización Internacional de Comisiones de Valores
International Organisation of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valore

July 8, 2010

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: Exposure Draft on *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 (IASB or the Board) Exposure Draft on *Conceptual Framework for Financial Reporting - The Reporting Entity*, (the Exposure Draft or the ED).

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. They are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

Question #1: *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?*

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We generally agree that a reporting entity may be defined as a circumscribed area of economic activities whose financial information has the potential to be useful to existing users. It is our experience that it may be useful in some circumstances to show information for a grouping of activities that is only part of a legal entity's full activities. In these circumstances the boundaries around what is presented in financial reporting are due to accounting conventions which are based upon appropriate judgments of what constitutes an area of objectively distinct economic activities. It should be noted that the amounts shown as "assets" in these circumstances are not supported by property rights of the reporting entity because the financial statements are not those of a legal entity, yet these underlying rights are an essential characteristic of an asset. A similar matter applies to obligations. The challenge in these circumstances is thus how to make apparent and transparent to financial statement users that a reporting entity's "assets" and "liabilities" are derived from accounting conventions rather than from the underlying property rights and obligations at law.

Paragraph RE3 sets out the features of a reporting entity for which the second feature is that the economic activities can be objectively distinguished from those of other entities and from the economic environment in which the entity exists. However, there is no discussion of how those judgments are to be made and how one discerns what an objectively distinct economic activity is versus one that is not. As a result SC1 members are concerned that there could be inconsistent application of this concept when determining the boundaries of financial reporting or when formulating standards. While we understand that the Board may want to leave this concept sufficiently broad to apply to varying facts and circumstances, such as carved-out or pro forma financial statements, SC1 members generally believe that further describing the principles underlying the judgments of objectively distinct determinations may provide a more consistent application of the definition of a reporting entity.

For clarity, we recommend the language referring to users "who cannot directly obtain the information they need"in paragraph RE2 be aligned with the language in the *Objectives of Financial Reporting* chapter which describes this as users "who lack the ability to prescribe all financial information they need."

Question #2: *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 RE7, RE8 and BC18–BC23.) If not, why?*

We believe that control should be defined broadly at the conceptual level to accommodate all future standard setting undertakings that involve consolidation if control is to be specifically associated with the Reporting Entity chapter. Some SC1 members are concerned that the proposed definition of control set forth in the Reporting Entity chapter has the potential to conflict with the definition of control at the standards level because the conceptual definition could result in consolidating more or fewer entities than the definition at the standards level. We believe it is the intention of the Board that entities would determine control for purposes of consolidation based on standards-level guidance rather than referring to the conceptual framework definition of control. Therefore, to address any potential conflict we recommend the Board clarify that the conceptual level definition of control is not the basis for determining consolidation but rather is the basis for which standards are formulated to further define control and the principles of consolidation.

Question #3: *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?*

Some SC1 members are concerned that paragraph RE6 could be interpreted to provide guidance requiring separate financial reporting for a branch or division equivalent to those of subsidiary financial statements when formulating guidance at the standards level. SC1 members believe that the Board should consider adding language to clarify that although a portion of an entity may meet all the requirements of a reporting entity, whether or not financial information should be reported by that portion of the entity is the function of requirements and standards outside the conceptual framework.

Some SC1 members are concerned that the language related to parent-only financial statements is overly prescriptive and could be interpreted as implying that parent-only financial statements are only appropriate or only have utility when accompanied by consolidated financial statements and therefore such statements should not be contemplated for financial reporting purposes. For example, paragraph RE11 states, "Such 'parent-only' financial statements might provide useful information if they are presented together with consolidated financial statements." While SC1 members agree that in many circumstances consolidated financial statements may be necessary to accompany parent-only financial statements in order to provide more complete financial information about a reporting entity, jurisdictional rules and regulations may dictate circumstances that require parent-only financial statements for which consolidated financial statements are not also required.

Additionally, SC1 members do not believe it is clear that paragraph BC24 provides an adequate example of why parent-only financial statements must be accompanied by consolidated statements. That example states that "parent-only financial statements might be helpful in assessing the level of dividends the controlling entity is legally able to pay without depending on transferring funds from the controlled entities". This example appears to demonstrate the utility of stand-alone parent-only financial statements to some users and it is unclear how the consolidated statements would provide a necessary enhancement to that information. Therefore it is unclear why consolidated financial statements need to accompany parent-only financial statements in all cases if those statements are presented in a context and in a form to serve a particular reporting requirement that has a narrow purpose for decision-useful information.

Question #4: *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?*

We generally agree that the reporting entity concept should not be delayed until other standards have been issued to the extent the reporting entity concept will not result in confusion or inconsistency with the standard level guidance. While we understand the reasons for the Board's step-by-step approach in re-deliberating the conceptual framework, we believe that the more effective or ideal approach is to address the conceptual framework as a whole within a single project to provide a full and consistent basis for formulating new standards.

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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

Julie A. Erhardt
Chairman
IOSCO Standing Committee No. 1