

**From:** [Ying Guo](#)  
**To:** [Director - FASB](#)  
**Cc:** [Hamid Pourjalali](#)  
**Subject:** Comments on File Reference No. 1770-100 from Ying Guo  
**Date:** Friday, April 02, 2010 5:20:17 AM

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Dear Sir or Madam:

I am a graduate student in accounting major. Recently, I read the exposure draft of a proposed statement of Conceptual Framework for Financial Reporting: The Reporting Entity, with the file reference No. 1770-100. I agree the proposal in general but have certain concerns on details. First, I would like to discuss two concerns through my reading, and then give my opinions regarding to the questions raised in Notice For Recipients Section in the draft.

Based on the reading paragraph RE10 and BC 17, I have a concern on the definition of significant influence. In paragraph BC17 of this exposure draft, significant influence is defined as " the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies." This definition is vague without further illustration, since significant influence is hard to measure in practice and the line between the significant and joint control is unclear. We need more specific criteria to decide to which extent the influence is significant and to which extent the influence becomes control or joint control.

The other concern is on the two or more control entities existed case. Based the paragraph RE 9 and BC16, if two or more entities have joint control of another entity, none of the entities would present consolidated basis information. Without further adjustment, this rule might be manipulated by some companies. For example, company A has significant influence on company B; at same time, A and B jointly control company C. In this scenario, Company A's influence to company C could be beyond the degree of "significant influence" and fall into "control" category

since A can add its influence on C through B. Therefore, company A should provide consolidated information (with company C) to be better useful for investors' decision making. However, according to RE 9 in this exposure draft, no consolidated financial reporting is needed. To solve this inconsistency problem, we need more detailed regulation on reporting involved in affiliated entities. For instant, we should set certain ownership percentage tests to decide whether the consolidated reporting is required or not. IRS Tax treatment on affiliated entities could be a cross reference.

Come to the questions raised in Notice For Recipients section, for the first question, I generally agree the definition of reporting entity in Paragraphs RE2 and the changes made in paragraph BC4-BC7, since the definition and changes is in good accordance with the objective of general purpose of financial reporting. However, in decision making process, investors use the information disclosed by the financial reporting not only in assessing whether the management and the governing board of that entity have made efficient and effective use of the resources provided, but also in evaluating the entity's other performance, such the liabilities management or financial leverage strategy. The current definition of reporting entity seemly ignores the evaluation usage aspect when investors use the financial reporting. Thus, we can define the reporting entity as "a circumscribed area of economic activities whose ... in assessing whether management and the governing board of that entity have made efficient and effective use of the resources provided, and in evaluating the financial performance of the entity" in a more completed sense.

Regarding to the second question in Notice For Recipients, I agree that if an entity control other entity/entities, the control entity should present consolidated financial statement as paragraph RE7-8, because the control entity actually "have" the resource and take the benefits (or losses) from using such resource. The consolidated financial statement gives investors an entire figure of the entity and is

more useful for decision-making process. Further, the explanation of control of an entity is clear through paragraph BC11-BC15 and easy to understand.

For the third question in Notice For Recipients, I agree that a portion of an entity could qualify as a reporting entity. Recognizing that the reporting entity and legal entity are different concepts from different point of view can help us to answer question three. I think that the paragraph RE 6 and BC10 explain the difference very well.

Regarding to the forth question in Notice For Recipients, I totally agree the reasoning that FASB makes and think that the reporting entity concepts should come before the conceptual framework is fully developed, since the concepts are basic element of framework. If we find serious deficiency on definition of the reporting entity in future or serious conflicts with other concepts in developing framework, we can make proper adjustment in future; but we should not wait.

Thank you very much for your efforts and time!

Sincerely,  
Ying Guo