# Comments on FASB Proposed Statement of Financial Accounting Concepts: Conceptual Framework for Financial Reporting - The Reporting Entity

Dear Board Members and FASB Staff:

I have reviewed Financial Accounting Standards Board's Exposure Draft, "Conceptual Framework for Financial Reporting: The Reporting Entity," and I appreciate the opportunity to provide my comments. I have included my response to the Board's questions under the "Notice for Recipients" section below.

**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? If not, why?

#### **Response:**

I agree with the proposal because the objective of a reporting entity should be consistent with the objective of financial reporting, and the description of a reporting entity in the conceptual framework is consistent with the objective of financial reporting in the sense that it designed to provide sufficient and useful financial information to potential or existing investors so that investors can evaluate whether the objective of the management and the governing board of that entity is in line with the investors and hence whether they should make new or further investment in that entity.

**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? If not, why?

## **Response:**

Investors have the right to access the information about the resources and claims, also changes in those resources and claims, of both a controlling entity they invested and all entities it controls. Therefore, I agree with the proposal that if an entity controls one or more entities, it should present consolidated financial statements while

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preparing financial reports, not just the financial statements of the controlling entity itself.

In this conceptual framework, the Board defined "control of an entity" as an entity that controls another entity when it has the power to direct the activities of that other entity to generate benefits for (or limit losses to) itself. However, the definition of "control of an entity" proposed by the Board should be more definite. For example, the Board should describe under what condition could an entity to be said that it has the power to direct the activities of another entity?

**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? If not, why?

#### **Response:**

Basically, I agree with the proposal because a reporting entity does not have to be a legal entity as a whole. A reporting entity can be a sole proprietorship or any form of a legal structure such as a partnership or a corporation as mentioned in paragraph BC10. If the economic activities in a portion of an entity can be separated from the rest of the entity and its financial information about that portion has the potential to be useful in making decision about providing resources to that portion, then that portion of an entity could be qualified as a reporting entity. However, the Board should specify the certain criteria on how to distinguish the economic activities of that portion of an entity with the rest of the entity in an objective way.

**Question 4:** The FASB and the IASB 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? If not, why?

## **Response:**

I agree with the Board's conclusion. Although the common standards-level project on consolidation worked by FASB and IASB have not yet completed, the reporting entity concept should not be delayed until those standards have been issued. Since the reporting entity concept is stated in general terms and is not likely to conflict with the

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work of the common standards on consolidation (mentioned in the paragraph B27), it is reasonable foreseeable that the adoption of the concepts and standards stated in this conceptual framework would not cause any significant problems in financial reporting. Thus, the publication of the Exposure Draft and the completion of the reporting entity concept prior to the issuance of the common standards would be considered as a correct decision.

I appreciate the opportunity to share these comments with the Board. If there is any question about my comments, please let me know and I am willing to discuss the any issues with you.

Sincerely,

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