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Exposure Draft *Conceptual Framework for Financial Reporting: The Reporting Entity* (ED/2010/2, File Ref 1770-100)

Grant Thornton International Limited and its US member firm, Grant Thornton LLP, appreciate the opportunity to jointly comment on the International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) Exposure Draft *Conceptual Framework for Financial Reporting: The Reporting Entity* (the Exposure Draft). We support the Boards' efforts to update and enhance the conceptual framework to provide a foundation for developing principles-based and converged standards.

General comments

We appreciate the improvements that have been made to the proposed definition of a reporting entity during redeliberation of the previous *Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Reporting Entity* (Preliminary Views). However, we are concerned that the proposed definition of a reporting entity in the Exposure Draft tries to accomplish too much. Included within a single defined term are the concepts of an entity, a reporting entity, a consolidated reporting entity, and the objective of financial reporting.

In our view, to build a proper workable definition of a reporting entity it is important first to define an *entity* at the conceptual level. We believe that the boundaries of an entity would normally be defined by statute or contract but in any event would necessarily be objectively defined. This definition should also be consistent with the description of the entity concept in paragraph BC 1.12 of the Exposure Draft *Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information*. That description implies that an entity is a set of economic resources (assets) and the claims to those economic resources (liabilities and equity). A reporting entity would be an entity that provides the information specified in paragraph OB15 of the same document. We believe that the focus would be on the economic resources rather than economic activities.

As we stated in our previous response to the Preliminary Views, we do not believe that it is necessary to incorporate the objective of financial reporting into the definition of a reporting entity as that is appropriately stated elsewhere within the Conceptual Framework. If the Boards elect to incorporate an objective into the definition of an entity, the description should incorporate both relevance to users and representational faithfulness to ensure that the information set is complete. A reporting entity would be an entity that presents a complete set of information about the objectively defined economic resources, the claims to those resources, and the effects of transactions and other events and circumstances that change those economic resources and the claims to those resources.

Regarding consolidated financial statements, we believe that it would be sufficient to provide a broad definition of a consolidated financial statement as consisting of a group of entities controlled by a single entity, similar to the broad definitions of parent-only and combined financial statements. The definition of control, and potentially the detailed criteria for determining which entities must present consolidated financial statements and be consolidated, should be left to the standards level.

Responses to questions posed in the Exposure Draft

Our responses to the questions posed in the Exposure Draft follow:

Q1 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?

As noted in our general comments, we believe that this definition conflates the concepts of an entity and a reporting entity, each of which should be defined separately. We believe that the definition of an entity should be more specific as to the boundaries and consistent with the entity concept adopted by the Boards elsewhere in the Conceptual Framework.

The essential characteristics in paragraph RE3 therefore may be incomplete in that they do not incorporate reference to an objectively defined set of economic resources (as well as activities) and the complete set of claims to the resources, consistent with the entity concept described elsewhere in the framework. We also note that general purpose financial reporting would be useful for all those with a claim to the resources of an entity. The third essential characteristic in paragraph RE 3 may be incomplete in that the information should have the potential to be useful to all claimants to the economic resources of the entity. Some parties may have a claim on the economic resources of an entity without having made or contemplated a resource allocation decision, yet would presumably find the financial statements useful.

Q2 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 agree that the definition of a consolidated financial statement could incorporate a group of entities that is controlled by a single entity. We believe that the decision on whether consolidated financial statements should be prepared, the definition of an entity that must be consolidated and the definition of control are all better addressed at the standards level. If it is necessary to define control of an entity at the conceptual level, a general concept of control should be defined with the understanding that it may be necessary to provide more specific guidance at the standards level.

Q3 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?

We agree that a portion of a reporting entity could qualify as another reporting entity, or that a portion of a consolidated entity could qualify as a reporting entity or as consolidated reporting entity in its own right. However, a reporting entity must consist of at least one set of objectively defined economic resources and a complete set of claims to those economic resources.

Q4 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 support exposure and discussion of conceptual issues prior to issuing standards that incorporate new or revised concepts whenever practicable. Ideally, the revisions to the conceptual framework would precede the issuance of implementing standards.

We would be pleased to discuss our comments and recommendations with Board members or the staff. Please direct your questions or comments to John Hepp (John.Hepp@gt.com or +1 (312) 602-8050) on behalf of Grant Thornton LLP or Andrew Watchman (Andrew.Watchman@gtuk.com or +44 (0) 207 391 9510) on behalf of Grant Thornton International Limited.

Sincerely,



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