

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

Stockholm 30th June 2010

ED/2010/2 - Conceptual Framework for Financial Reporting: The Reporting Entity

Far, the Institute for the Accountancy Profession in Sweden, is responding to your invitation to comment on the exposure draft ED/2010/2 Conceptual Framework for Financial Reporting The Reporting Entity.

On the whole, Far supports the direction of this project on the description of a reporting entity.

However, Far has some concerns with the description of "reporting entity" and the precedence between the definition of "reporting entity" in this exposure draft, and the definition of "control" in the ongoing consolidation project.

In appendix 1 Far sets out its responses to the questions raised by the IASB.

Far

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Chairman Far Accounting Policy Group



Appendix 1

Responses to the questions raised in the invitation to comment

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 RE 2 and BC4–BC7.) If not, why?

Far agrees with the proposed description of "reporting entity" and the features described in RE3. Far agrees that "economic activity" is better than the earlier discussed "business activity".

However, Far proposes that the phrase "who cannot directly obtain" (RE2) should be removed; whether the users can directly obtain the financial information is irrelevant. Instead, defining the "circumscribed area of economic activities that have the potential to be useful" is the important issue.

In addition, Far has some concerns regarding the references to "management and the governing board" (RE1 and RE2), because it assumes that the reporting entity has a management and a governing board, which might not be the case when the reporting entity is a "portion" or "combination" (e.g. a branch or division) at the reporting entity level.

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 RE 7, RE 8 and BC18–BC23.) If not, why?

Far agrees that when an entity controls another entity, the ultimate parent should provide consolidated financial statements.

The concept of defining the reporting entity is related to the ongoing consolidation project, and as Far understands, it was the intention to use the same definition of "control" in both that project and this chapter. Far agrees with that intention.

However, the exposure draft does not include the question of precedence: the identification of the reporting entity, or the requirement to present consolidated financial statements — which manifests itself in a variety of ways. Issues that will arise will be for instance:

- 1. Can reporting entities involve partial consolidation (parent entity with some, but not all, subsidiaries)?
- 2. Can "portions" consolidate? Are combined financial statements required to include ALL commonly controlled entities (e.g. all businesses owned by a family)?

Far consequently proposes that the Board includes guidelines regarding precedence in the final standard (framework).

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 RE 6 and BC10.) If not, why?

Far agrees.

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?

Far agrees that the completion of the reporting entity concept should not be delayed. Generally, it is preferable to have the framework first, on which the standards are then developed.

In addition, Far recommends that this chapter should not become effective until the application of standards-level guidance is also effective. It is imperative to have standards-level guidance on (1) the primary financial statements of listed groups for regular filing purposes (i.e. annual and interim reports) and (2) prospectuses (where Far encounters our main problem with defining the reporting entity for the prospectus and whether carve-ins and carve-outs can comply with IFRS), otherwise, this chapter is not operational.