

China Accounting Standards Committee

July 16, 2010

Sir David Tweedie, Chairman International Accounting Standards Board 30 Cannon Street London, EC4M 6XH United Kingdom

Dear Sir David Tweedie,

Re.: Exposure Draft 2010/2 "Conceptual Framework for Financial Reporting: The Reporting Entity"

Thank you for offering the Chinese Ministry of Finance and China Accounting Standards Committee an opportunity to comment on the Exposure Draft on Conceptual Framework for Financial Reporting: The Reporting Entity.

We appreciate IASB's efforts to develop a common and improved conceptual framework for financial reporting that includes a reporting entity concept. The definition of reporting entity provides the basis for developing future accounting standards. Also, it is a fundamental to what is reported to users of financial reporting.

We agree with the description of a reporting entity in the Exposure Draft. We also think that a reporting entity should not be determined by its legal structure alone, it must also reflect economic substance. We approve that control is viewed as a criterion of determining the composition of a group reporting entity. The completion of the reporting entity chapter should not be delayed until standards on consolidation have been issued.

We suggest the Board consider that all legal entities should qualify as reporting entities. The Board should consider the applicability of reporting entity concept by other types of entities, such as not-for-profit entities in the private sector and business entities in the public sector. The general term of control is so broad that it is difficult to operate. The concept and criteria of control should be consistent among IFRSs, and especially coordinate with the consolidation project.

Please refer to the attachment for our comments on specific questions.

Sincerely yours,

Liu Yuting

Director-General, Accounting Regulatory Department, MOF, China Member of China Accounting Standards Committee



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Attachment:

Comments of China Accounting Standards Committee (CASC) on

the IASB Exposure Draft Conceptual Framework for Financial Reporting: The Reporting Entity

Ouestion 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?

- **A1:** We agree in general with the description of a reporting entity in the Exposure Draft. However, we have several proposals as follows:
- a. We suggest the Board consider that all legal entities should qualify as reporting entities. Although we also think that a reporting entity should not be determined by its legal structure alone, it must also reflect economic substance, we still give this suggestion for two reasons.

In fact, economic activities of many legal entities are commingled to a certain degree. It will not be feasible to determine objectively whether each single legal entity qualifies as a reporting entity under board's proposal. The financial information of such legal entities has the potential to be useful in making decisions about providing resources.

In China, when companies are reconstructed to be listed, some assets of high quality are kept in the companies to be listed, while the remaining assets and businesses are reallocated to the group. In fact, this is to split the same rights and obligations of business into segmentation in legal form. The two entities may share in a lot of resources and can not be completely independent in actual operation after splitting. Under the board's proposal in the Exposure Draft, whether it needs to consolidate needs further clarification.

The proposals in Exposure Draft may produce significant influence on the taxation, dividends distribution and other related matters. As the current legal requirements of taxation and other regulatory authorities, it should provide financial reports in accordance with legal entity. Dividends distribution is also based on the legal form.

- b. We prefer to change "providing resources to the entity" to "providing resources to the circumscribed area", which echoes the previous wording "a reporting entity is a circumscribed area of economic activities". The modified words may enhance the applicability of reporting entity concept by other types of entities, such as not-for-profit entities in the private sector and business entities in the public sector.
- c. The board should further clarify the "other creditors", whether the stakeholders, such as government and employees, are included.

Ouestion 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?

- **A2:** We agree that if an entity that controls one or more entities prepares financial reports, it should present consolidated financial statements. We also have several proposals on the control.
- a. The Exposure Draft proposes that an entity 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. The general term of control is so broad that it is difficult to operate. It is more difficult to make judgment. We recommend refining the criteria of control or providing additional guidance.
- b. We also suggest the Board coordinate related projects. The concept and criteria of control should be consistent among IFRSs, and especially coordinate with the consolidation project.
- c. We suggest that add the exemption of preparing the consolidated financial statements in specific circumstances in accordance with the control purposes. For example, even if part of the investment of an investment company (such as PE) could qualify as a reporting entity, it should be an exemption of preparing the consolidated financial statements. Because it is a financial investment aimed to earn the price spread. The preparation of consolidated financial statements is burdensome work for the entity.

Ouestion 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?

A3: We agree with the Exposure Draft's proposal. We believe that a portion of an entity could qualify as a reporting entity. It is necessary in practice and can provide 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 chapter of the Conceptual Framework should not be delayed until those standards have been issued? (See paragraph BC27.) If not, why?

A4: We agree with the Exposure Draft's proposal. The completion of the reporting entity chapter of the Conceptual Framework should not be delayed until standards on consolidation have been issued.

Further Remarks

According to the Exposure Draft, the concept of parent-only financial statements is addressed in RE 11. We prefer the Board clarify the relationship among "parent-only financial statements", "separate financial statement" as defined in IAS 27 and "individual financial statement" in current IFRS.