



American Institute of CPAs
220 Leigh Farm Road
Durham, NC 27707-8110

July 15, 2010

Russell G. Golden, CPA
Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: March 11, 2010 Exposure Draft of a Proposed Statement of Financial Accounting Concepts, *Conceptual Framework for Financial Reporting: The Reporting Entity* [File Reference No. 1770-100]

Dear Mr. Golden:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to act as an advocate for all local and regional firms and represent those firms' interests on professional issues, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the ED and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC supports the issuance of this ED as a final concepts statement.

However, TIC would appreciate the Board's consideration of the specific recommendations below for clarifications of paragraphs RE6 and RE8.

SPECIFIC COMMENTS

In its review of the ED, TIC agreed that:

- The definition of a reporting entity is properly stated in the ED and should not be limited to legal entities. As discussed in TIC's October 3, 2008 comment letter on the FASB's Preliminary Views document, TIC believes that consolidated financial statements should be presented from the perspective of the group reporting entity, not from the perspective of the parent company's shareholders.

- Financial reports prepared by an entity that controls one or more entities should be presented as consolidated statements.
- The term “control of an entity” should be defined broadly in the conceptual framework, with further refinements of the definition made at the standards level.
- A portion of an entity could qualify as a reporting entity, as long as the portion of the entity meets the criteria in the definition of reporting entity. The language in paragraph RE6 differs somewhat from the reporting entity definition in paragraphs RE2 and RE3. To avoid confusion, TIC suggests that paragraph RE6 refer back to paragraphs RE2 and RE3 followed by the stated example.
- Completion of the reporting entity concept should not be delayed until the FASB/IASB standards on consolidation have been issued.

TIC believes the first sentence in paragraph RE8 of the ED should be revised for clarity. This sentence states:

If one entity controls another entity, the cash flows and other benefits flowing from the controlling entity to its equity investors, lenders, and other creditors often depend significantly on the cash flows and other benefits obtained from the entities it controls, which in turn depend on those entities’ activities and the controlling entity’s direction of those activities. Accordingly, if an entity that controls one or more entities prepares financial reports, it should present consolidated financial statements. Consolidated financial statements are most likely to provide useful information to the greatest number of users.

As written, the sentence implies that a controlling entity and its investors would always realize positive returns (i.e., cash flows and other benefits) from their investments. It ignores the downside potential in any investment. It also introduces the phrase “depend significantly,” which is ambiguous and does not add to an understanding of the concept of control.

TIC therefore suggests the following alternative wording:

When one entity controls another entity, the controlling entity and its equity investors assume the risks and rewards of the success or failure of the other entity’s activities and the ability of the controlling entity to direct the other entity’s activities. Accordingly, if an entity that controls one or more entities prepares financial reports, it should present consolidated financial statements. Consolidated financial statements are most likely to provide useful information to the greatest number of users.



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TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in black ink that reads "Philip J. Santarelli". The signature is written in a cursive style with a long horizontal line extending to the right.

Philip J. Santarelli, Chair
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committees