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 SECURITIES COMMISSION  
NEW ZEALAND

Ref: 410-010 / #119304

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International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
UNITED KINGDOM

Advance copy by electronic submission via [www.iasb.org](http://www.iasb.org)

Attention: Mr Alan Teixeira

Dear Alan

**EXPOSURE DRAFT CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING:  
THE REPORTING ENTITY**

Please find attached the Securities Commission's submission on Exposure Draft *Conceptual Framework for Financial Reporting: The Reporting Entity*.

If you wish to discuss further any of the matters raised in our submission, please contact Lay Wee Ng, Senior Accountant – Financial Reporting ([lay.wee.ng@seccom.govt.nz](mailto:lay.wee.ng@seccom.govt.nz)).

Yours sincerely



Jane Diplock AO  
Chairman

cc . Ms Patricia McBride  
Director - Accounting Standards  
New Zealand Institute of Chartered Accountants  
PO Box 11 342  
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**NEW ZEALAND SECURITIES COMMISSION'S SUBMISSION ON EXPOSURE  
DRAFT CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING: THE  
REPORTING ENTITY**

**General comments**

The Securities Commission supports the work of the International Accounting Standards Board (IASB). The Securities Commission, like other similar market regulators, has an interest in ensuring that markets receive all material and relevant information about a reporting entity so that market participants are not misled. The Commission considers that the IASB's effort to describe the reporting entity is a fundamental to what is reported to users of financial reports.

We agree in general with the IASB's proposed description of a reporting entity. Our specific comment on aspects of the ED follows.

Paragraph RE8 of the ED states that if an entity that controls one or more entities prepares financial reports, it should present consolidated financial statements.

We agree that for many reporting entities, the requirement to present consolidated financial statements will be necessary if the entity controlled one or more entities. However, in most jurisdictions, the requirements for the preparation and presentation of financial statements are determined by legal requirements. We consider that the proposed Framework should not preclude an entity from preparing financial statements or consolidated financial statements where they are legally required to do so. Moreover, while reporting entities should not be limited to legal entities, we suggest that the proposed Framework makes it clear that the concept of a reporting entity includes an entity that is legally required to report.

Our responses to the questions from the IASB ED follow.

**Responses to IASB questions**

**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? (See paragraphs RE2 and BC4–BC7.) If not, why?*

We agree in general with the description of a reporting entity as proposed. However, while reporting entities should not be limited to legal entities, we suggest that the proposed Framework makes it clear that the concept of a reporting entity includes an entity that is legally required to report.

**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? (See paragraphs RE7, RE8 and BC18–BC23.) If not, why?*

We agree in general that that if an entity that controls one or more entities prepares financial reports, it should present consolidated financial statements.

We agree with the definition of control of an 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? (See paragraphs RE6 and BC10.) If not, why?*

We 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.

In New Zealand, an unincorporated branch of an overseas registered bank is required to present financial statements of that branch. In addition, New Zealand securities law requires an offeror of debt securities to present consolidated financial statements of the “borrowing group”. The borrowing group is the issuer of the debt securities and all its guaranteeing subsidiaries. The borrowing group can be a sub-group of an entity’s financial reporting group.

**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 concept should not be delayed until those standards have been issued? (See paragraph BC27.) If not, why?*

We agree that completion of the reporting entity concept should not be delayed until common standards on consolidation that would apply to all types of entities have been issued.

**Miscellaneous Comment**

*Basis for Conclusions – Examples* – Paragraph BC10 states that although many economic activities are conducted within a legal structure, such as a corporation, trust, partnership or incorporated society, not all are conducted that way. The paragraph goes on to give the example of a sole proprietorship that is not legally separate from its owner, but there may be need for a general purpose financial report relating to those activities, for example, to seek funding from a bank or to provide information to prospective purchasers of the set of economic activities.

We suggest that better examples be used as financial statements prepared on the basis of the examples in paragraph BC10 are in the nature of special purpose financial statements rather than general purpose financial statements. In those examples, the users are able to specify their requirements and/or obtain directly the information that they need.