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ED 2010/2: Conceptual Framework for Financial Reporting – Reporting Entity

Dear Sir David,

Thank you for the opportunity to comment on ED/2010/2 “Conceptual Framework for Financial Reporting – The Reporting Entity”. We support the project’s objective of furthering convergence by harmonising and enhancing those aspects of the boards’ frameworks which currently diverge. Even if the conceptual framework does not have the status of an accounting standard as things stand, it will nevertheless serve as a basis for the development of future, converging standards. It is vitally important, in our view, that these standards should be principles-based and formulated in such a way as to ensure the greatest possible consistency with the framework. The principles set out in the conceptual framework therefore have substantial implications.

The definition of “reporting entity” is a key issue and should most certainly be addressed in the framework. We would nevertheless like point to out that the responsibility for deciding who is required to file financial statements lies not with the IASB, but with national governments. In the event of conflict between national law and the framework, the framework’s definition would therefore not be applicable.

Our replies to the questions posed in the exposure draft are as follows:

- 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?

Though we do not totally reject the proposed definition of “reporting entity”, we believe several points require clarification. According to paragraph RE4, “a reporting entity can include more than one entity or it can be a portion of a single entity.” Paragraph RE6 goes on to explain the term “portion of an entity”. We are not clear in this context about the distinction between a “portion of an entity” and a “segment”. The description of individual segments follows IFRS 8 so a segment pursuant to IFRS 8 does not, in our view, qualify as a “reporting entity”. It is also unclear whether a “legal entity” consisting of several “reporting entities” would have to prepare full IFRS financial statements for both the individual reporting entities and the legal entity.

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 basically agree that, if an entity controls one or more entities, it should present consolidated financial statements. As explained in our general comments, however, we would like to point out that it is not the responsibility of the IASB to decide which entities have to prepare financial statements, consolidated or otherwise. This responsibility lies solely with national legislators or regulatory authorities.

Having said this, we agree that the control of an entity should be considered in general terms in the conceptual framework while detailed definitions and the implementation of control should be handled at standards level (e.g. in the consolidation project). We nevertheless have concerns about a potential for bias or conflict at standards level (e.g. in the consolidation project) if the terms “power to direct” and “benefits” are already enshrined in the definition of control. It is our view that the definition proposed in the conceptual framework may not be broad enough. We would therefore suggest that the exposure draft should mention control only without going into specifics.

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 basically agree but would refer you to our reply to question 1. The precise scope of a “portion of an entity” may be difficult to define. It might be helpful to offer application guidance in the form of examples.

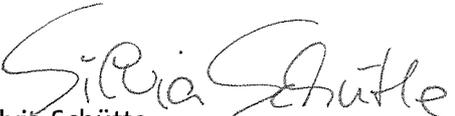
4) The IASB and the FASB are working together to develop common standards on consolidation that would apply to all types of entities. Do you agree that completion of the reporting entity concept should not be delayed until those standards have been issued? (See paragraph BC27.) If not, why?

Our view on the definition of control in the conceptual framework (see our reply to question 2) impacts the answer to this question. We would agree that the completion of the reporting entity concept should not be delayed until consolidation standards have been issued provided that the framework’s definition of control is sufficiently broad to avoid imposing bias or conflict at standards level.

If you require any further information, please do not hesitate to contact us.

Yours sincerely,


Dirk Jäger


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