

A-504, Great Eastern Gardens, LBS Marg, Kanjurmarg (W), Mumbai, India – 400078
Tel: +91 022 25796031 www.neocfo.com

International Accounting Standards Board
30, Cannon Street
London
United Kingdom

July 01, 2010

Subject: Comments on Exposure Draft on Conceptual Framework for Financial Reporting – The Reporting Entity

Dear Sir,

Thank you for giving us an opportunity to comment on the subject Exposure Draft (ED).

We are, generally, in agreement with the basic objective behind this ED namely *to provide financial information about the reporting entity that is useful 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.* We are also agreeing with

- i) the definitions of “control”,
- ii) the proposal to mandate the preparation of consolidated financial statements where one entity controls one or more other entities and
- iii) the suggestion of fast tracking this framework ahead of the issuing of the common standard on consolidation.

We, however, have very strong reservations about the statement “the existence of a legal entity is neither necessary nor sufficient to identify a reporting entity” contained in paragraph RE4. We understand this to mean that a legal entity need not be a reporting entity and, vice versa, a reporting entity need not be a legal entity. We believe that this approach is both untenable (in most circumstances) and also unnecessary for meeting the above stated basic objective. Our arguments are as follows.

A) All assets and liabilities belong to a legal entity alone. Contractual obligations are fulfilled by legal entities and, in the breach of any, the aggrieved party can sue a legal entity alone.

B) Company and tax laws in most jurisdictions recognise legal entities alone and stipulate various reporting requirements from these.

C) Let us consider the basic objective behind the ED. It is to help providers of capital to take a decision in respect of an entity. Active providers of capital like banks or large shareholders like pension funds or private equity funds or a strategic investor (or, for that matter, someone wanting to buy a branch) would demand all the necessary information and the entity would gladly provide the same. Hence, these capital providers would not be limited by the standardised financial reports issued by the entity.

Only the passive investor like a small investor buying on the stock exchanges would have to base his decisions on the financial reports available in the public domain. But this investor would always take a

holistic view of the legal entity only as the shares he buys or sells and their prices relate to the legal entity.

In short, making the existence of the legal entity a necessary condition for defining a reporting entity would **not** dilute the objective of this ED. On the other hand not linking financial reporting necessarily to the legal entity would frustrate the decision makings of a passive investor on the stock exchanges.

D) Yes, the passive investor may want to know the performance of different businesses within a legal entity. This information is anyway to be provided under “segment reporting” under IFRS 8.

E) Capital, in general, and equity capital, in particular, is fungible between various economic activity within a legal entity and to break it up for the purpose of preparing financial reports of entities outside the legal boundaries would be incorrect and arbitrary.

Yours sincerely,

Balan Wasudeo
Consulting CFO