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Project Manager International Accounting Standards Board 1st Floor 30 Cannon Street London EC4M 6XH United Kingdom

9 July 2010

Dear Sir/Madam

# RESPONSE OF THE ACCOUNTING COMMITTEE OF CHARTERED ACCOUNTANTS IRELAND

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

The Accounting Committee ('AC') of Chartered Accountants Ireland welcomes the opportunity to comment on the proposals contained in the above document. The appendix to this letter provides responses to the questions asked in the document.

AC would make the following overall comments:

- AC questions the appropriateness of including a definition of control in the reporting framework rather than in the relevant reporting standards.
- AC suggests that the purpose of this element of the framework should be set out upfront
  and understands that it is to specify what can be a reporting entity for the purpose of
  preparing general purpose financial statements in accordance with IFRS.
- AC suggests that the Board carefully review the various references to "entity", "reporting entity" and "activities" to ensure they are clear and as intended.

Should you wish to contact us about any of our comments please feel free to do so.

Yours faithfully

Mark Kenny

Secretary to the Accounting Committee

Pat Costello | Chief Executive David Butler, FCA | Secretary









# **Appendix**

## **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?

AC agrees that the three features set out in RE3 are appropriate. However, AC questions whether the key requirement that activities can be "objectively distinguished" is clear enough to ensure that it will be properly and consistently applied in practice. In particular, does the Board consider that the degree of arbitrary allocation of costs not directly attributable to the reporting entity is the key element in objectively distinguishing separately reportable activities?

For example, in assessing whether a division of an entity constitutes a reporting entity, is the degree to which the influence of centralised processes, such as purchasing, corporate overheads, intra-entity pricing and use of corporate intangibles, can be properly reflected in the financial reports of divisions, without significant arbitrary estimates, a key criterion in determining whether the activities can be objectively distinguished?

AC questions the reference in (b) to "...from these and other entities ...". Should entities here read "activities"?

In connection with the definition of the reporting entity, paragraph RE3 of the ED describes three features that are necessary "but not always sufficient to identify a reporting entity". However, the ED does not provide any indication of the circumstances where these features are not sufficient and what other features may be necessary. AC suggests that the Board should clarify what is contemplated by this.

# 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?

AC agrees that consolidated financial statements provide useful information and should be presented whenever an entity that controls one or more entities prepares financial reports.

While AC agrees with including the principle that an entity that controls other entities should present consolidated financial statements, AC draws attention to the exemptions allowed by IAS 27 such as intermediate parent companies.



Control is a concept used in IFRSs to establish the entities that should be consolidated by the reporting entity and also the assets that shall be recognised by the reporting entity. AC considers that it would be more appropriate that the definition of 'control' be addressed in the relevant reporting standards rather than in the framework.

#### 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?

AC agrees that a portion of a legal entity could qualify as a reporting entity.

Examples are provided in paragraph RE6 and paragraphs 19 and 20 of the basis for conclusions. AC refers to the response above to Question 1 re objectively distinguishable, and questions whether the examples in B 19/20 properly align with that description or whether they narrow the definition inappropriately.

## **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?

AC agrees that the reporting entity concept can be finalised even though work on consolidation standards is ongoing.

The conceptual framework should be capable of responding to and evolving with matters identified during the development of individual standards which indicate that there is a need to reconsider key concepts. While this should occur relatively rarely, an example may be the conclusions reached in defining 'control' as part of the consolidation project.

AC considers that individual chapters of the Conceptual Framework should not be finalised (or at least made effective) until all of the chapters are finalised to ensure that the overall framework forms a cohesive set of principles.



## **Additional Comments**

AC requests the Board to consider the following additional comments in finalising the concept of the Reporting Entity.

A legal entity may fail to represent a reporting entity

Paragraph RE5 of the ED indicates that "a single entity may not qualify as a reporting entity". In certain jurisdictions all legal entities must prepare financial statements. AC is concerned that, as a result of the principle set out in RE5, certain of these entities may be prevented from presenting general purpose financial statements under IFRS. AC considers that the principle in paragraph RE5 should be considered in this context.

A parent entity with objectively distinguishable activities

AC is unclear whether a parent entity with objectively distinguishable activities, e.g. a parent bank with a variety of subsidiaries in unrelated industries, will be permitted to present single entity (unconsolidated) general purpose financial statements in accordance with IFRS (other than together with consolidated financial statements), and requests the Board to consider carefully whether such a prohibition would be appropriate.

# Parent-only financial statements

AC agrees with the conclusion in paragraph RE11 that parent-only financial statements may provide useful information. In many jurisdictions, parent-only financial statements may be prepared in accordance with National GAAP. AC considers that it would be inappropriate if paragraph RE11 is intended to impose any restrictions on the production of these parent-only financial statements in accordance with those National GAAPs.

# Combined financial statements

AC notes that paragraph RE12 appears to propose that combined financial statements should be restricted to the combination of entities under common control. The Board has not provided an explanation for this restriction which seems to be at odds with the proposed definition of the 'reporting entity'.

AC considers that the Board should clarify that, to the extent one of the combining entities itself controls one or more entities, the combined financial statements should include those controlled entities.