CO-OPERATIVES UK

IASB
30 Cannon Street
London
EC4M 6XH

13 July 2010

Dear Sirs

Exposure Draft: Conceptual Framework for Financial Reporting: The Reporting Entity

Attached is the response of the Co-operative Performance Committee (CPC) of Co-operatives UK in relation to the Consultation Paper.

CPC is a standing committee of Co-operatives UK, which brings together professionals from within the co-operative movement to take responsibility for the movement's performance indicators and for promoting best practice on accounting standards.

Co-operatives UK is a co-operative owned and democratically controlled by its members. It was launched in January 2003 following the merger of the Co-operative Union (established in 1869) and the Industrial and Common Ownership Movement (ICOM). Co-operatives UK can therefore claim to have been in the business of promoting and representing co-operative enterprise for over 140 years. Co-operatives UK membership comprises individual co-operative enterprises ranging in size and diversity from large consumer owned co-operatives to small worker owned co-operatives. The number of co-operative organisations in membership exceeds 500 and has a combined turnover in excess of £16 billion. They employ over 152,000 staff and represent over 9.5 million members.

Summary Comments

We welcome the publication of the Exposure Draft on the Conceptual Framework for Financial Reporting and the opportunity to comment on the proposals. The definition of a reporting entity is of fundamental importance to the development of financial reporting and will have significant impact on both the users and preparers of financial statements.

The inclusion in the definition of a reporting entity of the concept of the usefulness of financial information to the users of financial statements is, we believe, an important principle. However, in restricting the definition to the equity investors, lenders and other creditors to an entity and not recognising the many other users of financial statements, we believe the definition is incomplete, particularly in the context of co-operative entities that do not conform to the standard investor model of business.

In other respects, we believe that the definition of a reporting entity included in paragraph RE2 is too widely drawn. In particular, the use of the word “potential” in regard to the usefulness of information could, without some measure of materiality, result in a significant burden on the preparers of accounts by substantially increasing the number of reporting entities for which financial statements would be required. We also believe that the definition of a reporting entity should start from the concept of an entity, which is relevant in all circumstances from a judicial perspective, and only seek to broaden the concept to encompass ‘Other Reporting Entities’ where an economic interdependence makes the preparation of “combined financial statements” relevant to users.

Yours faithfully,

Phil Holmes

Secretary

Co-operatives UK Co-operative Performance Committee

Responses to specific questions raised

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 that the definition of a reporting entity should be wider than purely legal entities and that a “circumscribed area of economic activities” is an acceptable way of broadening the definition. We also agree that the usefulness of information to equity investors, lenders and other creditors in making decisions about providing resources is an important test in determining whether or not an entity should produce financial statements, but that the test should not be limited to the equity investors, lenders and other creditors and should encompass usefulness to all users of financial statements. However, we believe that the definition is too widely drafted for two reasons.

Firstly, legal entities, of what ever form, account for the majority of business structures and most judicial systems have a requirement for legal entities to produce financial statements. Furthermore, in the vast majority of cases equity investors, lenders and other creditors provide resources to a legal entity as part of a contractual relationship, without which they would have limited recourse to the judicial system in the event of default or some other breach of contract. We believe therefore that the definition of a reporting entity should start from the legal entity and then develop the concept of ‘Other Reporting Entities’ or “Combined Financial Statements” based on the usefulness of information to the users of financial statements. Other Reporting Entities could encompass a wide range of potential structures combining more than one entity where there is an interdependence of economic activities, either with or without control.

Secondly, we believe that the inclusion of the word “potential” in respect of the usefulness of information to the users of financial statements makes the definition too wide and potentially unworkable because it could greatly increase the granularity of reporting, put an unnecessary burden on preparers of financial statements and potentially require the reporting of commercially sensitive information. For example, many of our members are multi-site retailers and financial information right down to individual branches has the potential to be of use to users of financial statements and the definition as drafted would require the production of financial statements at that level. We believe that it is undesirable to have such a wide definition, without some concept of materiality, and that the reporting of information on portions of an entity is better dealt within in standards on segmental reporting (see answer to question 3 below).

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?

Yes. We agree an entity controlling other entities should present consolidated financial statements but not if it is itself controlled by another entity (e.g. an intermediate holding company in a conventional group structure). We also believe that an entity presenting consolidated financial statements should also publish parent-only financial statements as these will be useful to the equity investors, lenders and other creditors, who will in most cases contract with the parent entity. We also agree with the definition of control.

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?

No. We do not believe that it is appropriate for a portion of an entity to qualify as a reporting entity. To require the separate financial reporting of portions of an entity would put an unnecessary burden on the preparers of financial statements. We do acknowledge that financial information on portions of an entity may be useful to the users of financial statements. However, we believe that the provision of such information is better dealt with through accounting standards that deal with segmental reporting requirements, as is currently the situation.

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?

Yes. It seems entirely appropriate that work on the conceptual framework should be completed first.