

Accounting Standards Board of Japan (ASBJ)

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International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

**Comments on the Exposure Draft
“Conceptual Framework for Financial Reporting: The Reporting Entity”**

We appreciate the longstanding efforts by the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) on the Conceptual Framework project and welcome the opportunity to comment on the Exposure Draft “Conceptual Framework for Financial Reporting: The Reporting Entity” (hereinafter referred to as the “ED”).

We hope our comments contribute to the forthcoming deliberation in the project.

A handwritten signature in black ink, which appears to read 'Ikuo Nishikawa'. The signature is fluid and cursive.

Ikuo Nishikawa
Chairman, Accounting Standards Board of Japan

I. Response to the questions in Invitation to comment

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?

1. We basically agree with the ED's description of a reporting entity. However, it should be clarified that reporting entities include not-for-profit entities. The ED's description of a reporting entity (paragraph RE3) might lead to a misinterpretation that the ED considers only profit-making entities as reporting entities. Our understanding is that the Boards intends to apply the ED to not-for-profit entities and the term *economic* instead of *business* is used to cover not-for-profit entities. Therefore, the intention to include not-for-profit entities, not only profit-making entities, in reporting entities should be clearly described.

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?

2. We agree that an entity that controls one or more entities should present consolidated financial statements if it prepares financial reports. We also agree with the definition of control of an entity based on the concept of power and benefits.
3. However, the issue of from whose viewpoint consolidated financial statements should be prepared (the view on an accounting entity) should be specified. The discussion about the view on an accounting entity described in the Discussion Paper "Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Reporting Entity" in May 2008 has been deleted in the ED. Whether consolidated financial

statements are prepared from the viewpoint of the group reporting entity or from that of the owners of the parent would make significant differences in important financial figures reported. Thus, the final document should specify, at least, the reasons for having deleted the description of the view on an accounting entity and whether the Boards retain the group reporting entity concept proposed in the Discussion Paper.

4. Although the group entity concept and the proprietary concept were considered in the Boards' deliberations on the view on an accounting entity, consideration of the parent company concept, lying between those concepts and widely used in practice, has been insufficient. Therefore, a particular view on an accounting entity should be specified after more intensive discussions.
5. It should be clarified whether a parent company itself can be a reporting entity by itself. Paragraph BC24 of the ED refers to the usefulness of parent-only financial statements, for example, in assessing the level of dividends the controlling entity is legally able to pay without depending on transferring funds from the controlled entities. Economic activities of a parent company typically can be objectively distinguished from others and therefore it seems that in such a case a parent company can be a reporting entity by itself as far as the necessary conditions described in paragraph RE3 of the ED are met.
6. On the other hand, parent-only financial statements do not include assets and liabilities of the controlled entities and therefore they might not represent faithfully the economic activities of the parent company. From this viewpoint, there can be a view that a parent company cannot be a reporting entity by itself, because parent-only financial statements would be useful financial information only when they are reported together with consolidated financial statements that capture the entire economic activities of the group.
7. From the ED's descriptions, it is unclear which view of the above two is taken in the ED. Therefore, the final document should clarify whether a parent company itself can be a reporting entity by itself.

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?

8. 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.
9. The ED gives a description of a reporting entity without describing what an entity is. We suppose that this is because the concept of a reporting entity can be valid if there are users who find financial reporting about a circumscribed area of economic activities to be useful, irrespective of the concept of what an entity is. Therefore, our understanding is that within a reporting entity there may be another reporting entity that engages in a circumscribed area of economic activities provided that the necessary conditions in paragraph RE3 are met. If this is the meaning of the statement that a portion of an entity could qualify as a reporting entity, wording should be clarified to make such an intent more easily understood.

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 paragraphs BC27.) If not, why?

10. We agree that completion of the reporting entity concept should not be delayed until those standards have been issued. The works for revisions to individual accounting standards (for example, a common standard for consolidation applicable to all types of entities), which are currently in progress, should be conducted fully in line with the revision to conceptual framework so as to avoid inconsistency.

II. Other comments

11. We would like to add a comment on the Boards' policy of putting each chapter of the

conceptual framework into effect on its issuance. There would be two ways of revising the conceptual framework: one is to replace the whole of the existing conceptual framework when the whole revisions have completed; the other is to put each chapter into effect when its revision has been completed. The Boards currently adopts the latter way. We understand this way taken by the Boards as a practical measure, because it would enable the Boards to make use of the updated concept in developing new accounting standards and because development of individual accounting standards would become difficult if the completed chapters are not put into effect until all chapters have completed

12. Furthermore, we fully support the policy voiced by the Boards that if a chapter completed later proves to be in conflict with any chapter already completed they would resolve the conflict from the viewpoint of consistency of the conceptual framework as a whole. We also suggest that those conflicts should be timely resolved.