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

Submitted via the "Open to Comment" page at www.iasb.org

IASB Exposure Draft ED/2010/2 Conceptual Framework for Financial Reporting: The Reporting Entity

Dear Sirs

I am writing on behalf of AFME (the Association for Financial Markets in Europe) to set out our response to the IASB's 11 March Exposure Draft ED/2010/02: Conceptual Framework for Financial Reporting - The Reporting Entity ("the ED"). AFME is, as you know, the principal UK trade association for firms active in investment banking and securities trading; it was established on 1 November 2009 as a result of the merger of LIBA (the London Investment Banking Association) and the European Branch of SIFMA (the US-based Securities Industry and Financial Markets Association), and thus represents the shared interests of a broad range of participants in the wholesale financial markets. We welcome the opportunity to comment on this ED.

In summary, we support the principle that the Conceptual Framework ("the Framework") should contain a definition of an "entity" to which the reporting provisions of relevant accounting standards could be applied. We are, however, concerned that the proposed definition of a "reporting entity", as set out in paragraphs RE2 and RE3 of the ED, could imply that such an entity is necessarily required to prepare general purpose financial statements. We believe the requirement to prepare such financial statements should be governed by the relevant legal and/or regulatory requirements, and that accounting standards should not seek to determine which entities should prepare these statements.

We therefore believe it would be preferable for the ED to define an "entity", using the description and features set out in paragraphs RE2 and RE3 respectively, and then to define a "reporting entity" as any "entity" which is obligated by relevant legal and/or regulatory requirements to prepare general purpose financial statements.

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Further, the term "entity" is extensively used in other contexts, not least in a number of different accounting standards, and does not always have precisely the same meaning in each case. We therefore believe that there is a broader benefit in establishing a definition of an "entity" within the Framework.

A second concern is that, while we agree that it would be helpful for the Framework to provide a high level definition of "control" (although we think this would be better placed outside of the Reporting Entity chapter), we believe the concepts in paragraphs RE7 to RE12 are too detailed for the Framework, and belong more properly in the standard on Consolidated Financial Statements. Here again, the concept being defined (i.e. "control") arises in several other standards (such as Revenue Recognition, Derecognition of Financial Instruments and Business Combinations) as well as in the standard on Consolidated Financial Statements, and we therefore believe it would be preferable for the Framework to provide a single general definition that can be refined as necessary at the standards level.

Our responses to the questions on page 4 of the ED are set out below.

- 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?
- A. As noted above, the requirement to produce general purpose financial statements is primarily governed by factors such as the legal and/or regulatory requirements of a particular jurisdiction. We therefore believe the description in paragraph RE2 and the features outlined in paragraph RE3 are insufficient to define a "reporting entity".

Thus, based on the above, we believe the ED would be significantly improved if it were to include: i) a separate definition of an "entity"; and ii) an appropriate reference to the role of legal and/or regulatory requirements in the determination of a "reporting entity". One way of doing this would be to:

- amend paragraphs RE2 and RE3 so that they define an "entity" rather than a "reporting entity"; and
- define a "reporting entity" as an entity which: a) meets the above definition, and b) is subject to applicable legal and/or regulatory requirements to prepare general purpose financial statements.

- 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?
- A. We agree with the concept of presenting consolidated financial statements where such financial statements provide the most useful information to the greatest number of users. We also agree with the concept of the Framework providing a high level definition of control for universal application. However, as noted above, we find the definition of control proposed in paragraphs RE7 to RE12 of the ED to be too detailed for inclusion in the Framework, and believe that such details would be better addressed at the level of the relevant standard(s). For example, paragraph RE8 implies that any entity that controls another should present consolidated financial statements; this is inconsistent with the practical exemption in IAS 27 from presenting consolidated financial statements where the entity is part of a larger group.
- 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?
- A. We believe a portion of an entity may be considered a separate entity for the purposes of applying the provisions of relevant accounting standards, for example, to determine whether the reporting entity should consolidate that portion of another entity. The practice of consolidating portions of an entity (e.g. "silos") is widely used in securitisation structures, where specified assets are the only source of payment for specified liabilities or specified other interests. US GAAP provides guidance on defining "silos" that may be subject to consolidation (see ASC 810-10-25-57), and we believe it would be useful to have similar guidance in IFRS. Notwithstanding this, in accordance with our comments above, we believe that a portion of an entity should not be considered a "reporting entity" if it is not otherwise required to produce general purpose financial statements.
- 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?
- A. We see no reason for the development of the reporting entity concept to be delayed until a common standard on consolidation has been issued, particularly if the Framework definition of control is, as suggested above, made at a higher level than in the standards to which it is applied. It would, more generally, be useful to consider how this part of the Framework interacts with all those standards where the terms "entity" and/or "reporting entity" are used.

I hope the above comments are helpful. We would of course be pleased to discuss any points which you may find unclear, or where you believe AFME members might be able to assist in other ways.

Yours faithfully

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