



International Accounting Standards Board  
30 Cannon Street  
London  
EC4M 6XH

Our Ref: TECH-CDR-938

16 July 2010

Dear Sir

### **Conceptual Framework for Financial Reporting: The Reporting Entity**

ACCA (the Association of Chartered Certified Accountants) is pleased to have this opportunity to comment on the above exposure draft (ED). The ED was considered by ACCA's Financial Reporting Committee and I am writing to give you their views.

#### **General comments**

We are generally supportive of the proposals in the ED, recognising the need to broadly describe a reporting entity at the conceptual level, and that this should be underpinned by a clear definition of control. However, we would note that control is a crucial concept throughout IFRS, and the Board should ensure that there is consistency in this definition throughout the Framework and within individual standards.

We note there is a linkage between the reporting entity concept discussed in this paper and the objectives of general purpose financial statements as outlined in the Board's exposure draft on '*An improved conceptual framework for financial reporting: Chapter 1 the objective of financial reporting and Chapter 2 qualitative characteristics and constraints of decision-useful financial reporting information*'. However, and as expressed in [our comment letter to the Board on that exposure draft](#), not only do we believe that the primary user group for general purpose financial statements should be more narrowly defined as equity investors (existing and potential), but that the perspective from which those statements are prepared should be more clearly established. Both of these aspects have a link to the reporting entity concept, and should be clarified, preferably as part of objectives of financial reporting project.

## ACCA's answers to questions posed by IASB

### **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 support the broad description of a reporting entity used in the ED, and also agree with the rationale in paragraphs BC6 and BC7 for amending the terms 'business activity' and 'of interest to' as used in the discussion paper, with 'economic activity' and 'useful...in making decisions...', respectively.

We also agree that reference should be made to potential equity investors, lenders and other creditors as providers of capital. This clearly links the reporting entity concept with the objectives of general purpose financial reporting as outlined in the Board's exposure draft, '*An improved conceptual framework for financial reporting: Chapter 1 the objective of financial reporting and Chapter 2 qualitative characteristics and constraints of decision-useful financial reporting information*'.

Similarly, we firmly believe that a key objective of financial reporting is that of providing a report on the management's stewardship of the enterprise and a record of the performance and position for which they are accountable to the owners. We therefore welcome the reference to making decisions about 'whether the management and the governing board of that entity have made efficient and effective use of the resources provided' of the reporting entity.

### **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?***

Where an entity controls one or more entities, the provision of consolidated financial statements would clearly provide decision-useful information. We also



agree with the need to define the concept of control at the Framework level as it underpins a number of financial reporting standards. While we appreciate that in some circumstances the ability to assess control may be difficult, such as when an entity may have *de facto* control, these circumstances should be dealt with at the standards level. At the conceptual level, the broad definition outlined in the ED is appropriate.

**Question3**

***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?***

As the description of a reporting entity is not based on legal structure, but on economic activities, we agree that it would be possible for a portion of an entity to qualify as a reporting entity if the description is met.

**Question4**

***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?***

We agree that this project should not be delayed. While this should in fact assist the development of subsequent standards which are consistent with the overriding concept, we do not envisage that the broad concepts as stated in the ED should conflict with the standard on consolidation.

If there are any matters arising from the above please do contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Aziz Tayyebi', with a horizontal line underneath.

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