

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

16 July 2010

Dear Sir / Madam,

# Re: Comments on IASB Exposure Draft "Conceptual Framework for Financial Reporting"

Mazars welcomes the opportunity to comment on the Exposure Draft "Conceptual Framework for Financial Reporting".

Overall, we agree with the proposals included in the exposure draft.

However, we believe that additional guidance is necessary on the following points:

- the Framework should explicitly state from which perspective the financial statements are prepared (i.e. whether financial statements should be presented from the perspective of the group reporting entity, or from the perspective of the parent company's shareholders),
- the notion of control should be further explained in the Framework, as a separate chapter in order to deal with both the control of an asset and the control over an entity,

In addition, and since combined financial statements are frequently used in certain jurisdictions, we believe that the conditions under which combined financial statements can be prepared should be clarified and further explained.





We would be pleased to discuss our comments with you and remain at your disposal should you require further clarification or additional information. Should you have any request regarding the above comments, please do not hesitate to contact Michel Barbet-Massin (+33 1 49 97 62 27).

Yours faithfully

Michel Barbet-Massin

Head of Financial Reporting Technical Support



#### 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 broadly agree with the definition as it is.

However, we suggest shortening the definition as follows "a reporting entity is a circumscribed area of economic activities whose financial information has the potential to be useful to existing and potential primary users".

In effect, paragraph RE3 c) further details how financial information can be useful.

In addition, further guidance and / or illustrative examples should be given when the 3 features listed in RE3 are not sufficient to identify a 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?

We agree that if an entity that controls one or more entities prepares financial reports, it should present consolidated financial statements.

However, it should be clarified whether "other types of financial statements" (in addition to consolidated financial statements) are only made of parent-only and combined financial statements, or whether these two are only examples of other types of financial statements.

## - Parent-only financial statements

We believe that there is no need to state in the Framework that parent-only financial statements can only be presented with consolidated financial statements.

We consider that parent-only financial statements should state that consolidated financial statements are being prepared, but that this does not imply to obliging an entity to present together the two sets of financial statements.

If the Board is concerned that parent-only financial statements could be misleading, presentation of parent-only financial statements should be conditioned to clearly indicating in parent-only financial statements that consolidated financial statements exist and how they can be obtained (see our comment letter to the DP "Preliminary views on an improved Conceptual Framework for Financial Reporting").



## - Notion of control

As evidenced by changes introduced by IFRS 3 and IAS 27 (2008), control is a key notion.

As it does not only apply as the principle of aggregation to define the boundaries of the reporting entity, we believe that it should be further explained in the Framework, as a separate chapter in order to deal with both the control of an asset and the control over an entity (whereas the inclusion of the notion of control in the reporting entity focuses only on the control over an entity).

#### - Combined financial statements

RE12 states that combined financial statements do not include information about the controlling entity but does not explain or justify the rationale for such statement.

We believe that this should be clarified. For example, we consider that combined financial statements could be prepared for a reporting segment (as defined in IFRS 8), i.e. including activities from different subsidiaries as well as activities from the parent company.

We also believe that the proposed definition would considerably restrict the use of combined financial statements.

In the example presented hereafter (see appendix A), combined financial statements are prepared at present, considering that these different banks act as an economic entity (even though there is no "control", in the usual meaning, there is common control since the different local banks control the central bank).

Based on the definition given, preparing combined financial statements would no longer be permitted, albeit these combined financial statements are deemed useful for the market (and are frequently required by regulators).

In the event combined financial statements can no longer be prepared, the "group" could still prepare pro forma financial statements but this does not appear sensible (considering that pro forma financial statements are usually dealing with hypothetical financial information, had a transaction been undertaken, and would not be appropriate for financial statements that are prepared on a regular basis).

Combined financial statements are generally aimed at presenting historical financial information of entities under common management which did not form a legal group (that seems to be an adequate description of the example given in appendix A).

We therefore suggest clarifying the difference between combined financial statements and proforma financial statements.



#### **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?

We agree that a portion of an entity can qualify as a reporting entity if that portion meets the description and characteristics of a reporting entity.

#### **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?

As the Framework is a keystone for the development of future standards, we consider that it should be given priority over other projects and that the Board should delay publication of individual chapters of the Framework until all chapters are finalized, in order to ensure consistency (see our comment letter to the DP "Preliminary views on an improved Conceptual Framework for Financial Reporting").

As a consequence, it would seem both more logical and preferable not to finalise the future standard on consolidation until the Framework is finalized. Otherwise, that could lead to significant future revisions of recently issued standards.

# - Entity vs. proprietary approach

Also worth mentioning is the fact that, contrary to the DP, the ED does not explicitly state from which perspective the financial statements are prepared (i.e. whether financial statements should be presented from the perspective of the group reporting entity, or from the perspective of the parent company's shareholders).

In this regard, we did not find compelling evidence in the discussion paper justifying that financial statements should not be presented from the perspective of the parent company's shareholders.

In any case, we believe that the Framework should discuss this issue further, and conclude on this subject.



# Appendix A - Example

- The Central Bank is owned by all the regional banks.
- Management of the Central Bank is appointed by the local and regional banks.
- The Central Bank acts for the benefits of the regional banks.
- · There is no "control" relationships between any of the entities

