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IASB

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To whom it may concern,

The Institute of Certified Public Accountants in Ireland welcomes the opportunity to comment on:

‘Conceptual Framework for Financial Reporting- The Reporting Entity’

In response to specific questions asked, we would like to make the following comments:

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 formation 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 in general that the above definition is adequate for most small to medium size entities and that economic entity has more relevance than the legal form when reporting on financial performance and financial position.

However we note that the definition of financial reporting entity- and therefore separate financial reporting- is defined by reference to economic activity.

On the other hand the definition of control- and therefore consolidated financial reporting - is defined in question 2 as the “power to direct the activities...” Such power to direct is usually derived from providing long term funds. .

There is a possible conflict in consequence of each definition.

Consider the situation of a single company operating diverse divisions – example, Pharmaceuticals, Mining and Hotels as suggested in RE 6 concerning a portion of an entity qualifying as a reporting entity

Assuming each operates at arm's length to each other and each satisfies paragraphs (a), (b) and (c) then each might be regarded as a separate reporting entity. The consequence is thus separate financial statements?

On the other hand “power to direct the affairs..... “ even if not actually executed would require that the divisions be included in one consolidated financial statement.

Thus the definition in this Question 1 with reference to economic activity appears to result in separate financial statement but the definition of control as per question 2 with reference to control [generally through provision of funds for those activities] would require consolidation of the separate reporting entities

We would suggest therefore that paragraph (a) be amended to include the word “independent”

It would thus read “economic activities of an entity are being independently conducted, have been independently conducted, or will be independently conducted.”

Thus the existence of common control /influence would be sufficient to prevent such divisions being treated as separate financial reporting entities unless overwhelming evidence was available to rebut it.

Perhaps there is a need to distinguish between a financial reporting entity and a segment.

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 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?

The problem may be that the definition of financial reporting entity and thus separate financial statements does not exclude the requirement for consolidated financial statements as defined in question.

Question 4

The FASB and the IASB 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 the development of framework should take precedence of development of the standard as it will hopefully clarify fundamental issues/terms before developing a detailed standard.

The Institute of Certified Public Accountants in Ireland hopes that these comments are beneficial to you and we would be happy to discuss any of the above with you.

Yours sincerely,

Declan Nestor
Chairperson, Financial Reporting Sub - Committee

