



**International Association of Consultants,
Valuators and Analysts**
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30 June 2009

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

Ladies and Gentlemen,

This letter of comment is submitted on behalf of the International Association of Consultants, Valuators and Analysts (IACVA). We are a knowledge transfer and credentialing organization with Charters, issued or pending, in China, Germany, Ghana, India, Indonesia, Mexico, Middle East, Nigeria, Philippines, Russia, South Korea, Taiwan, Thailand, the United States and Vietnam. We have nearly 8,000 members, who are mainly involved in business valuation and fraud deterrence.

As a worldwide organization, our members are extremely concerned with the development of International Financial Reporting Standards (IFRS), as well as Generally Accepted Accounting Principles in the United States (GAAP). They are especially worried by the trend in the convergence activities that seems to result in IFRS moving towards GAAP rather than the process correcting the many practical deficiencies and complexities of the recent codification, especially its excessive rules.

We appreciate the opportunity to comment, from a valuation point of view, on ED/2010/2 “*Conceptual Framework for Financial Reporting: The Reporting Entity*”. Our observations are as follows:

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?

In general, IACVA agrees with the definition of the term “Reporting Entity”, but is concerned that the ED uses the word “entity” with two different meanings; this can cause confusion to readers whose native language is not English. We therefore propose the term “Reporting Entity” be amended to “Reporting Unit”, even though that term was used, in a different context, by FASB for impairment testing in SFAS 142 *Goodwill and Other*

Intangible Assets. As the IFRS equivalent, IAS 36 *Impairment of Assets*, uses the preferable term “cash generating units”, we believe that the word “unit” should be applied in the economic field and ‘entity’ limited to the legal.

In addition, we are concerned with the wording of clauses (a) and (c) of RE 3, as well as its final paragraph. In clause (a) the words “of an entity” are redundant as it describes the timing of the economic activities of a “reporting entity”. We also object to the phrase “will be conducted” preferring “are planned to be conducted” which better describes the intent.

Clause (c) contains the phrase “governing board” to which we are opposed. Many legal entities, such as business trusts or limited partnerships, do not have governing boards, nor do sole (individual) proprietorships, all of which could be Reporting Units; on the other hand, every business activity has a manager. Therefore, in our view, the term should be deleted. Finally we feel the phrase “but not always sufficient” is superfluous in the final paragraph as the standard is principle based.

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?

This question has two unrelated parts! With respect to the necessity of presenting consolidated financial statements, we respectfully disagree. A great deal of analysts’ and valuator’s time and effort is devoted to disaggregating consolidated financial statements. Therefore we strongly object to the statement “consolidated financial statements are most likely to provide useful information to the greatest number of users”.

We believe that consolidated statements are likely to be misleading when the business models of separate operations are totally different. A well known example is the Industrial and Financial activities of The (US) General Electric Company (GE). In our view, separate and consolidating statements, are often more satisfactory in achieving the objective set out in the Board’s definition “...in making decisions about providing resources to the entity (unit) ...”.

In addition, in the mining and petroleum industries, joint ventures are a standard business practice. Each of them has an operator that, under the proposed definition of control, will consolidate it. However, none of the other participants (often the majority economic interests), is able to do so. In such circumstances, we prefer the established concept of proportionate consolidation; do not throw the baby out with the bath water.

The second part of the question is the definition of “control”. Paragraph RE 7 states “an entity controls another entity when it has the power to direct the activity of that other entity to generate benefits for (or limit loss to) itself.” This is followed (in RE 10) by the statement “If one entity has a significant influence over another entity, it does not control that other entity”. In our view, when there is influence of influence by one entity over another, there is usually a continuum depending on facts and circumstances. The Boards’ subtle differentiation of “influence” from “power to control” in practice seems a bit

of a legal quibble. The real question relates to the ability to determine management. In a 50-50 owned entity the supplier of the CEO will have effective control; we therefore suggest the wording be changed to “one entity controls another if it has the ability to affect management decisions”.

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?

Here again, these are verbal problems. For cash generating unit (such as a retail store) that forms part (a branch) of a legal entity, to be a separate financial Reporting Unit, is self evident. Such a separation should be able to take place if there is any reasonable (which may be internal as opposed to objective) basis for distinguishing the economic activities.

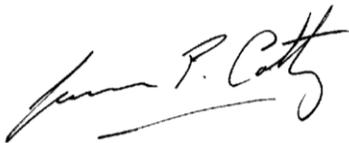
Question 4

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?

The concept of a Reporting Unit is not directly relevant to the, happily soon to be developed, common standards for consolidation. Therefore, we concur that this project should not be delayed.

Should you wish to discuss this matter further, a member of your staff may contact the writer in Toronto, at (00)-1-416-865-9766.

Yours very truly,



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Chair