

July 29, 2010

CLIFF #: 228756

Website: www.iasb.org

280-30

Sir David Tweedie International Accounting Standards Board First Floor 30 Cannon Street London, EC4M 6XH United Kingdom

Dear Sir David Tweedie:

RE: <u>IASB ED/2010/2 - Conceptual Framework for Financial Reporting:</u>
The Reporting Entity

Thank you for the opportunity to comment on the IASB exposure draft "Conceptual Framework for Financial Reporting: The Reporting Entity". The views expressed in this letter reflect the views of the Province of British Columbia. These views are based on a commitment to preparing financial statements that are understandable and meet the information and decision-making needs of the public and the Legislature acting on their behalf.

The reporting entity that the IASB is recommending is very similar to the Canadian reporting entity concept as indicated in the Canadian Public Sector Handbook. We fully support the Canadian reporting entity concept based on control and the reporting of a single economic unit that may include separate legal entities. We have found that the control criteria of having the power to determine strategic operating and financing policies, with the opportunity of obtaining economic benefits and exposure to related risks, provides stakeholders and users with the most relevant and useful information that reflects the full economic influence of all controlling interests. This allows the reporting of the full nature and extent of the financial affairs and resources of a particular economic unit.

The exposure draft does not include any guidance on the concept of temporary control. The Province of BC believes the reporting entity guidance would be improved with guidance on temporary control. The absence of guidance related to temporary control

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could result in an entity that gains temporary control of another entity being required to consolidate the other entity. An example is a trustee in bankruptcy gains control of the bankrupt entity during the term of the bankruptcy. The trustee in bankruptcy controls the bankrupt but should not consolidate the bankrupt entity. Without a temporary control exclusion in the reporting entity guidance, the trustee in bankruptcy could be required to consolidate the assets, liabilities and operations of the bankrupt entity according to the proposed guidance. The Canadian Public Sector Handbook provides the following guidance with respect to temporary control of an entity:

"A government's ability to take temporary control of another organization in exceptional circumstances, such as a crisis situation like bankruptcy or a board failure, does not, in and of itself, constitute control for the purposes of this Section. Such circumstances would arise as a result of a specific event that caused the government to intervene in the activities of the organization. Temporary control is short term in nature with the intention to relinquish control as soon as the crisis has been addressed."

Responses to specific questions posed in the exposure draft are attached. Should you have any comments or questions, please contact me at 250 387-6692 or by e-mail: Cheryl.Wenezenki-Yolland@gov.bc.ca, or Carl Fischer, Executive Director, Financial Reporting and Advisory Services Branch, at 250 356-9272 or by e-mail: Carl.Fischer@gov.bc.ca.

On behalf of the Province of British Columbia

Sincerely.

Cheryl Wenezenki-Yolland, CMA, FCMA

Comptroller General

Province of British Columbia, Canada

cc: Graham Whitmarsh, Deputy Minister Ministry of Finance

Nick Paul, Deputy Secretary to the Treasury Board Ministry of Finance

Carl Fischer, Executive Director Financial Reporting and Advisory Services Office of the Comptroller General

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?

The Province of BC agrees 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.

The Province of BC also notes that the financial reports prepared according to IFRSs are useful to other users besides existing and potential equity investors, lenders and other creditors. These other users of IFRSs are acknowledged in the IASC Foundation's constitution, which in section 2 states, "enforceable and globally accepted financial reporting standards...help investors, other participants in the world's capital markets and other users of financial information make economic decisions."

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?

The Province of BC agrees that if an entity that controls one or more entities prepares financial reports, it should present consolidated financial statements.

The Province of BC agrees with the definition of control of an entity.

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 Province of BC agrees 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. However, the

province notes that the controlling entity is best placed to determine whether financial information about that portion of the entity should be published externally to the controlled group.

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 Province of BC agrees that completion of the reporting entity concept should not be delayed until the IASB and FASB have completed the project on consolidation and standards have been issued.