July 15, 2010

Financial Accounting Standards Board
Attn: Technical Director—File Reference No. 1770-100
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 1770-100

Dear Technical Director, Board Members and Staff:


In reviewing this draft, we have concerns about the general usefulness of Statements of Financial Accounting Concepts as currently applied in the U.S. We believe accounting concepts statements should articulate principles and outline predictive bases upon which subsequent accounting standards will be developed. In practice, however, we have seen recurring instances in which accounting principles laid out in Statements of Financial Accounting Concepts are ignored and/or overridden in subsequent detailed accounting standards. This reality brings into focus the underlying question as to the purpose and function of Statements of Financial Accounting Concepts, including the exposure draft on the Conceptual Framework for Financial Reporting.

A conceptual framework by its nature should provide direction for any specific guidance on a topic, in order to provide utility in development of specific guidance, or standards. Given that specific and authoritative literature exists with regards to the determinations of control and consolidation, why would this proposed Concept Statement endeavor to speak to these topics? It seems at odds with the very purpose of the conceptual framework.

We strongly recommend that the FASB reaffirm the purpose and function of Statements of Financial Accounting Concepts. In very rare circumstances, when
accounting standards are issued that require actions which appear to contradict principles laid out in accounting concept statements, the FASB should explain the reasoning for such differences and offer explanation as to how to reconcile those differences with the underlying concept statement principles.

If Statements of Financial Accounting Concepts do not offer a reasonable predictive basis on which to view and evaluate detailed accounting standards, it isn’t clear they serve any useful purpose. If recurring exceptions render concept statements as ineffective, we believe the same conclusion applies as well. In such cases, we believe Statements of Financial Accounting Concepts that serve no useful purpose should not be issued.

In our view, if the Statements of Financial Accounting Concepts were to become authoritative as mentioned in the preface, the FASB would be forced to address many of the inconsistencies mentioned above. Such action would ensure that statement preparers and users would have a clear understanding purpose and content of financial statements.

We provide these specific responses on the Exposure Draft questions below:

**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 are not clear on how this definition of a reporting entity (i.e., as a circumscribed area of economic activities whose financial information has the potential to be useful...) would be defined and applied on a consistent basis in practice. An entity is primarily determined and defined through common control, which can be either legal or economic. We believe the definition of a reporting entity should be one which would apply in practice to all organizations.

Normally, there will not be a reporting entity below this level for most organizations. There may be sub-levels for some organizations, but these reporting levels are discretionary and based on the judgment of the parties controlling the entity and/or regulatory requirements. While this informational need may result in reporting for “portions” of an entity, it is not common enough to justify calling those “partial portions of an entity” a reporting entity.

The definition also restricts the reporting unit to those instances in which the information would not otherwise be directly obtainable. While assuredly more common, there are certainly cases in which a reporting unit wishes to publish
financial reports to those whom could otherwise obtain such information. Are these cases to be excluded from the definition of a reporting entity and thus exempt from any derived requirements inherent or assumed the presentation of such information?

It is also unclear how the reporting unit concept should be applied to a portion of an entity as described within RE6 and BC10. If a portion of an entity is controlled and should be included in a higher-level, consolidated reporting entity, when is it appropriate for that lower level portion of an entity to be characterized as the reporting entity?

Given our concerns expressed above, we believe that the more conceptual (less detailed) definition provided by the IASB for the reporting entity is more appropriate. That is the reporting entity is “an entity for which there are users who rely on the financial statements as their major source of financial information about the 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 concur that when one entity has the power to direct the activities of another entity to generate economic benefits which will primarily accrue for its benefit, then the need/benefit exists for presenting consolidated statements. Further, we believe that the proviso in RE11 for parent-only financial statements to be presented in appropriate circumstances is an excellent addition.

**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?*

No, we do not concur that a portion of an entity should qualify as a separate reporting entity. We believe that disaggregated financial information on a portion of an entity could on occasion be useful to users of financial statements, but that this need and use would be exceptional on a case by case basis. We do not believe this disaggregated portion of an entity should constitute a reporting entity, per se.

It is also unclear how the reporting unit concept is to be applied to a portion of an entity as described within RE6 and BC10. If a portion of an entity is controlled and should be included in a higher-level, consolidated reporting entity, when is it
appropriate for that lower level portion of an entity to be characterized as the reporting entity?

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?

As outlined in our opening comments to this letter, we have a general concern about consistency between Concepts statements and underlying accounting standards.

We believe that it would be beneficial to delay release of this Concept statement until the detailed standards on consolidation have been developed, in conjunction with the IASB, to ensure that there is consistency in this area. We suggest however, as noted in our opening comments, that the purpose of the Concept statements are not clear and if they have no useful function in the process of developing accounting standards, we would suggest that “less is more” and not issuing the concept statement should be considered.

We appreciate the opportunity to provide feedback to the proposed Statement of Financial Accounting Concepts and welcome any additional opportunities to further discuss or otherwise support the efforts of the Financial Accounting Standards Board in this area.

Best Regards,

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