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Regarding: The Conceptual Framework for Financial Reporting

Proposed Statement of Financial Accounting Concepts The Reporting Entity Ref. 1770- 100 Due 7- 16- 2010

By : Dr. Joseph S. Maresca CPA, CISA

Colleagues,

I thank you for the opportunity to critique this proposed statement.

Background:

The proposed statement indicates that the reporting entity is not limited to business activities structured as legal entities. BC9 indicates that the "Boundaries between legal entities are artificial."

Control means (impliedly) the power to direct. Joint control implies power sharing. If control is exercised over multiple entities, then there is a theoretic justification for presenting consolidated financial statements.

Generally, I concur.

Critique

The reason for consolidated financial statements is to present in one accounting entity the combined resources, obligations and results of operations of a family of related entities. Resultingly, there is no rational reason to exclude any subsidiary or entity which is genuinely controlled.

There are circumstances which can negate a parent's control or render it meaningless. For instance, a subsidiary or major segment which is bankrupt or in a court-supervised reorganization is not really controlled by the parent.

A foreign sub having severe production, labor, monetary, income tax restrictions or confiscatory tax rates may be subject to the authority of the foreign country over the parent. There are circumstances where a corporation owning less than 50% of another company's voting common stock may control the affiliate (de-jure) . i.e. The remaining stock is widely dispersed among individual shareholders who never meet or vote.

BC9 indicates that the "Boundaries between legal entities are artificial." Perhaps, the greatest example of this statement is in the traditional organization of Chinese work units, particularly in the inland.

These Chinese work units had a hierarchy with the commune at the pinnacle. Next in the hierarchy were the production brigades and individual production teams. Under this arrangement, the power was at the top or the commune level or even higher. Over the past several decades, China has experimented with a mode of operation more western-based.

By the time China officially welcomed entrepreneurship and private enterprise in the late 1970s, Huaxi was ahead of the rest of the country. Factory revenues provided badly needed capital to expand and set up more enterprises. From simple beginnings, Huaxi's small businesspeople have exceeded their most optimistic goals. Today's prosperity is very noticeable compared to yesteryear.

The nearly 500 original households are entitled to a small home and a single car.

Residents get a living wage. The bulk of the pay comes in annual bonuses which are reinvested in company stock.

Residents receive free health care, education and pensions - something many Chinese and even some Americans

find in short supply.

Nearly 60% of the population or 750 million people live in the countryside.

Resultingly, China's leaders need to refocus their attention on rural areas. Most of China's growth has come in the cities.

Refocusing growth on rural areas means migrating power centers from the commune organizational schema to

smaller enterprises operated and controlled at the top by local residents, as in Huaxi. And so, "Boundaries between

legal entities are artificial" or even undefined in some places.