

July 26, 2010

Mr. Russell Golden Technical Director Financial Accounting Standards Board 401 Merritt 7, P.O. Box 5116 Norwalk, CT 06856-5116

File Reference No. 1770-100

Dear Mr. Golden:

The Accounting Principles Committee of the Illinois CPA Society (Committee) appreciates the opportunity to provide our perspective on the Proposed Statement of Financial Accounting Concepts, *Conceptual Framework for Financial Reporting: The Reporting Entity*. The Committee is a voluntary group of CPAs from public practice, industry and education. Our comments represent the collective views of the Committee members and not the individual view of the members or the organizations with which they are affiliated. The organization and operating procedures of our Committee are outlined in Appendix A to this letter.

Our comments on specific questions posed by the Board are as follows:

**Question No. 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 agree that this definition is an improvement over the version in the Preliminary Views document but believe it could be improved further. We believe the definition of a reporting entity should align with both the objective of financial reporting and the qualitative characteristics. Regarding the objective of financial reporting, we continue to believe stakeholders is a better description of the users of financial statements. In our opinion, there may be others in addition to equity investors, lenders and creditors interested in financial information (e.g., customers or in the case of not-for-profit entities, contributors.) Another concern is the use of the term economic activities. Economic activities is an undefined term that does not map well into the remaining chapters of the conceptual framework or general usage. We note that other chapters in the proposed conceptual framework use the term economic resources (and claims to those resources). In terms of representational faithfulness, a reporting entity must include a defined set of economic resources and a complete set of claims to those resources. This terminology would



be more consistent with the other chapters of the conceptual framework, especially paragraphs OB6, OB12, OB16-OB24, BC1.12, QC2 and QC7.

**Question No. 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 that a group of entities controlled by a single entity would be a reporting entity. However, we also believe that a portion of an entity, including the parent entity, could also be a reporting entity.

We believe that control should be defined only in the broadest terms at the level of the Conceptual Framework. We believe that control and financial statement presentation are more appropriately defined at the standards level.

**Question No. 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?

We agree, provided the reporting entity constitutes a defined set of economic resources and a complete, representationally faithful set of claims to those resources. While we do not believe it is necessary for financial information about the entity to be useful in making decisions about providing resources to the entity, we do believe it may be useful for stakeholders to have a reckoning of all claims to a defined set of economic resources.

**Question No. 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?

We agree.

We appreciate the opportunity to offer our comments.

Sincerely,

## Reva Steinberg, CPA

Chair, Accounting Principles Committee

## Jeffery Watson, CPA

Vice-chair, Accounting Principles Committee



## APPENDIX A ACCOUNTING PRINCIPLES COMMITTEE ORGANIZATION AND OPERATING PROCEDURES 2010-2011

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times, includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

## **Public Accounting Firms:**

**Large:** (national & regional) Robert A. Dombrowski, CPA

John A. Hepp, CPA

Alvin W. Herbert, Jr., CPA Scott G. Lehman, CPA

Matthew G. Mitzen, CPA Reva B. Steinberg, CPA

Jeffery P. Watson, CPA

**Medium:** (more than 40 professionals)

Gilda M. Belmonte, CPA Marvin A. Gordon, CPA

Ronald R. Knakmuhs, CPA

Jennifer L. Williamson, CPA

**Small:** (less than 40 professionals)

Barbara Dennison, CPA Kathleen A. Musial, CPA

Michael D. Pakter, CPA

**Industry:** 

Christopher M. Denver, CPA

Kenneth J. Frederickson, CPA Farah. Hollenbeck, CPA James B. Lindsey, CPA Michael J. Maffei, CPA

Jacob R. Mrugacz, CPA

Karen R. Page, CPA

Anthony Peters, CPA

**Educators:** 

James L. Fuehrmeyer, Jr. CPA Laine E. Malmquist, CPA Leonard C. Soffer, CPA

Staff Representative:

Paul E. Pierson, CPA

McGladrey & Pullen LLP

Grant Thornton LLP

Retired/Clifton Gunderson LLP

Crowe Horwath LLP Blackman Kallick LLP BDO USA LLP

Blackman Kallick LLP

E.C. Ortiz & Co, Ltd.

Frost, Ruttenberg & Rothblatt, P.C.

Miller, Cooper & Co. Ltd.

Ostrow Reisen Berk & Abrams Ltd.

Selden Fox, Ltd. BIK & Co, LLP

Gould & Pakter Associates LLC

Solomon Edwards Group LLC

NGL Hospira, Inc. TTX Company GATX Corporation

U.S. Cellular Telephone & Data Systems

David Lewis Co.

McDonald's Corporation

University of Notre Dame

Judson University University of Chicago

Illinois CPA Society