March 30, 2010

I am commenting on the proposed "Concept Framework for Financial Reporting" issued on March 11, 2010. My comment focuses on the reporting entity.

Although the framework gave us general guidance on what constitutes a reporting entity, I don't agree with the definition of reporting entity which is defined in paragraph RE 2. My reason for disagreement is that the definition is not very precise and clear, and the sentence is too long.

The language of "potential equity investors, lenders, and other creditors who can not directly obtain the information they need" creates ambiguity. Will the result be different if those users or some of them can indirectly obtain the financial information? Also, does the decision have to be only about "providing resources to the entity and in assessing whether management and governing board of that entity have made efficient and effective use of the resource provided?" Does the entity need to provide financial information if the decision is not about providing resources and assessing management and governing board of the entity?

Therefore, I recommend that the concept should be defined as: A reporting entity is an economic unit that has the capacity to engage in transactions with other entities. It can be a natural person, sole proprietorship and a branch or segment of a legal entity, whose financial information has the potential to be useful to the existing and potential users such as equity investors, lenders and other creditors for decision making. The decision is about whether or not the users should provide resources to the entity and whether the management and the governing board of that entity have made efficient and effective use of the resources provided, etc.