



LARSEN & TOUBRO LIMITED

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E-Mail :

July 15, 2010

Ref. :

The International Accounting Standards Board,
1st Floor, 30 Cannon Street,
London EC4M 6XH, United Kingdom.

Dear Sirs,

Sub: Our Comments on the Exposure Draft (ED/2009/2)
Conceptual Framework for Financial Reporting: The Reporting Entity

With reference to the above, we appreciate the efforts taken by IASB for developing a single set of high quality standards for financial reporting and we believe that the above exposure draft is a step towards achieving that objective.

Our response to specific questions set out in the document containing the exposure draft is enclosed vide **Annexure A**.

Thanking you,

Yours faithfully,

for **LARSEN & TOUBRO LIMITED**

Vaishali P. Koparkar
Joint General Manager
Corporate Accounts

Annexure A

Response to ED/2009/2:- Conceptual Framework for Financial Reporting: The Reporting Entity

Q. No.	Question	Our Response
1	<p>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?</p>	<p>We agree with proposals concerning the definition of ‘reporting entity’ subject to our request that the term “circumscribed area” should be a “legal entity” at the minimum.</p> <p>Further, while finalising framework IASB may also consider including examples of “non – reporting entity” to make this concept more clear.</p> <p>The identification of reporting entity on the basis of use to information users will help proper identification for financial reporting purposes. However, in addition to equity investors, lenders and other creditors, IASB should consider including Government and employees among the stated users of Financial statements.</p>
2	<p>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?</p>	<p>We agree with proposal concerning presentation of consolidated financial statements by an entity that controls one or more entities.</p> <p>Currently, IAS 27 provides an exemption for intermediate parents to prepare consolidated financial statements (CFS). The requirement in framework to prepare CFS at all levels would be conflicting with requirement in concerned standard. A clarification on issue will be useful.</p> <p>We agree with the proposal concerning definition of control. We suggest some commentary is added clarifying when control exists and when it doesn’t. It may also be clarified in general terms when power to direct results in benefits and when it doesn’t. Examples of employee benefit funds, trusts controlled by employer can be cited.</p> <p>Currently IAS 27, 28 and 31, define control with reference to power govern financial and operating policies of the entity. However, the proposed definition would require control over all the activities of another entity. This will narrow down the coverage of entity for the purpose of consolidation which may not be the intention of the Board.</p>

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<p>3</p>	<p>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?</p>	<p>We do not agree with the proposal.</p> <p>We do not agree with the Board's conclusion that a reporting entity need not be a legal entity. In our view, extending the definition of "reporting entity" to a level below "legal entity" would cause tremendous hardship to the legal entity in which such reporting entity is housed. It will also cause confusion in the minds of users while making decisions of providing resources. There is no bar on providing break up of activities of a legal entity in the manner required by various users. In fact, segment reporting performs similar function. However, it would not be logical to prescribe a mandatory requirement of reporting to a portion of legal entity by deeming it as a reporting entity. Enforcement of such a requirement will also be an issue if "legal entity" is not the minimum requirement.</p> <p>Normally, users need the overall consolidated picture for making decisions of providing resources. Since resources are fungible within a legal entity, reporting requirement for "circumscribed area" within a legal entity will serve no major purpose other than information overload and resultant costs.</p> <p>In case of sole proprietorship also, we are of the view that the activities of the sole proprietor may not be legally separable from his economic activities. However, to deem a part of his activities as "reporting entity" would be onerous. The sole proprietor may be made a reporting entity which can then provide detailed information on its business activities to the users of the financial information.</p>
<p>4</p>	<p>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?</p>	<p>We agree that the completion of the reporting entity concept should not be delayed until the common standards on consolidation have been issued.</p> <p>The main purpose of the conceptual framework is to help in developing various underlying standards, and the concepts should come before the specific standards.</p>

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