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Sir David Tweedie International Accounting Standards Board 30 Cannon Street, 1st Floor London EC4M 6XH United Kingdom

Dear Sir David:

Re: Exposure Draft "Conceptual Framework for Financial Reporting – The Reporting Entity"

The Canadian Bankers Association¹ (CBA) would like to thank the International Accounting Standards Board (IASB or the Board) for the opportunity to comment on the exposure draft entitled "Conceptual Framework for Financial Reporting – The Reporting Entity" (the "ED").

In principle we support the Board's proposal in the ED. Current guidance used to evaluate the influence or control that an entity has over activities of another entity continues to focus mainly on activities that a legal entity engages in. The ED's proposal not to limit the conceptual framework to legal form but to describe a reporting entity as "a circumscribed area of economic activities" (RE2) would increase the ability of stakeholders to evaluate the allocation of resources or activities that an entity undertakes. However, we believe that as a result of the fact that a reporting entity could include multiple entities or a subsection of a single legal entity, application of the proposal may be difficult and could result in inconsistencies. Additional guidance and examples should be provided to clarify when a portion of an entity could qualify as a reporting entity.

We encourage the Board to finalize the definition for reporting entity under the conceptual framework prior to or in conjunction with other projects, as the impact of application of the conceptual framework would have a considerable effect on the application of other proposed standards, including consolidation.

¹ The Canadian Bankers Association works on behalf of 50 domestic banks, foreign bank subsidiaries and foreign bank branches operating in Canada and their 249,000 employees to advocate for efficient and effective public policies governing banks and to promote an understanding of the banking industry and its importance to Canadians and the Canadian economy.

Our responses to the specific questions contained in the ED are included in the Appendix. If you have any questions concerning our comments or suggestions, we would be pleased to discuss them.

Sincerely,

Sancy Ferry

Attachment

Appendix A

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 paragraph RE 2 and BC 4 – BC 7). If not, why?

Comment

We agree that a reporting entity "is a circumscribed area of economic activities"; however, we believe additional guidance is required in defining what economic activities are, which economic activities should make up this circumscribed area, and who should make this determination. For instance, the Board may consider clarifying whether economic activities include only those activities within the entity's on-going operating business cycle, or alternatively, include those economic activities that generate significant cash flows for the business. In our view, without clear guidance on this definition, the concept could be inconsistently applied by preparers, which could result in less comparability between similar entities.

We also agree that the use of the term "economic activities" in the ED is preferable to the use of the term 'business activities' as originally proposed in the Discussion Paper. We believe this term better clarifies that a user's focus is on how an entity applies its resources and that the reporting entity's objective is to provide useful information to assist users in making decisions on the entity's use of these resources. However, as indicated in BC 10, while many economic activities are conducted within a legal structure, a reporting entity could include multiple entities or a subsection of a single entity. Therefore, while we support the concept that identification of a reporting entity should be based on economic activities that are relevant to the decision making process, independent of legal form, there may be difficulties in implementing this concept from a financial reporting perspective due to challenges in data gathering for such economic activities.

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 RE 7, RE 8 and BC 18- BC 23). If not, why?

Comment

We agree that if an entity controls one or more entities (a "group"), it should present consolidated financial statements. We believe consolidated financial statements better reflect a complete economic position of a group as they include all resources available to a group and its related obligations and report how these resources are being managed on a consolidated basis. Consolidated financial information provides more relevant information as most organizations manage their economic resources and develop business strategies on a group basis, and usually do not simply focus on individual legal entities.

We also understand the Board's decision to define "control" in general terms at the conceptual framework level. Additionally, we support the Board's decision to provide further guidance at the

standard level to address pertinent accounting, disclosure and operational issues, including those related to segment reporting and disclosures currently required under IAS 27 Consolidated and Separate Financial Statements and data gathering for financial reporting purposes.

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 RE 6 and BC 10). If not, why?

Comment

When a portion of an entity consists of economic activities that can be distinguished from other activities of the entity and information on these activities will impact the decision making process of the resource providers, we agree with the proposal that this portion of the entity could qualify as a reporting entity. However, the ED only provides one example, that of an unincorporated branch of an overseas corporation. To assist in consistent application of the concept, we ask the Board to provide additional examples.

It is also unclear in the current ED whether the presentation of standalone financial statements for a portion of an entity that qualifies as a reporting entity under the ED are permitted or whether such presentation is required. While we believe that a portion of an entity could qualify as a reporting entity, we do not believe the presentation of standalone financial statements should be a requirement in all such instances, as this information would not be useful if the reporting entity is not managed on a standalone basis. As an alternative, the Board may consider increased disclosures in the notes of the financial statements of the parent or group instead of standalone financial statements when presentation of such information is impractical.

Question 4

The IASB and 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 BC 27). If not, why?

Comment

In our view, the conceptual framework forms the foundation for development of standards, consistent with the Board's view that "the main purpose of the conceptual framework is to aid in developing standards, which implies that concepts come first" (BC 27). While we agree that the finalization of the conceptual framework should not be delayed until the issuance of the consolidation standard (the Consolidation Project) by the IASB and FASB (the Boards), we believe that where applicable, conceptual issues addressed by the Boards and tentative decisions reached in their ongoing deliberations in the Consolidation Project should be reflected in the development of this conceptual framework to ensure the two projects are aligned.