



June 15, 2010

Via website posting: <http://www.iasb.org/>

Re: Exposure Draft Comment:

Conceptual Framework for Financial Reporting: The Reporting Entity(ED/2010/2)

Dear Sir/Madam:

The Certified General Accountants Association of Canada (CGA-Canada) welcomes the opportunity to comment on the Exposure Draft: **Conceptual Framework for Financial Reporting: The Reporting Entity(ED/2010/2)**. We have also provided additional comments at the end of our responses for expressing our views on certain related matters.

We believe that by providing a definition of ‘reporting entity’, the two Boards have facilitated the development of standards that address the preparation of financial statements.

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 paragraphs RE2 and BC4–BC7.) If not, why?

Comments

CGA-Canada agrees that circumscribed area of economic activity is a useful method for identifying a reporting entity. However, a legal entity is almost always *de jure* the reporting entity. Hence, a reporting entity cannot be described solely on the basis of its circumscribed area of economic activity while ignoring its legal status because, in practice, financial reporting will typically be in compliance with the applicable rules and regulations which are enacted with reference to a legal entity rather than a circumscribed area of economic activity. This is true even if a legal entity has commingled its resources and activities with any other entity. Also, in addition to the providers of capital, the regulators constitute an important group of end users of the financial information of a reporting entity and their requirements for the financial information may not be the same as for other users. Hence, we submit that all legal entities are necessarily reporting entities but not *vice versa*.

We also note that the ED has replaced the term *business activities* in the original discussion paper by the term *economic activities* without defining the same. We are concerned that, in absence of a definition, this new term may be interpreted in divergent ways.

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 RE7, RE8 and BC18–BC23.) If not, why?

Comments

CGA-Canada agrees that an entity that controls one or more entities should present consolidated financial statements. It is believed, however, that such consolidated financial statements should also be accompanied by parent-only financial statements and that such parent-only financial statements should be required rather than permitted as proposed in the ED. Such requirement would provide useful information to the end users. We also believe that the investors require information regarding profitability, efficiency and sustainability of the operations of the individual controlled entities. This kind of information is useful in judging the impact of separate lines of businesses on the operations of the controlling entity. Such comprehensive information cannot be obtained merely on the basis of the consolidated financial statements of the controlling and the controlled entities. Hence, we suggest that such information should be provided preferably by making available to the investors in the controlling entities, the separate financial statements of the controlled entities. Such a requirement would also be conceptually consistent with the Boards' proposal 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 (Paragraphs RE6 and BC10.). Please see the Question 3 and comments below:

We agree with the definition of control of an entity. It would help if illustrative examples are provided to clarify the related concepts like temporary control, joint control, effective control, significant influence and treatment of options.

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 RE6 and BC10.) If not, why?

Comments

CGA-Canada agrees 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. However, the ED is not clear if “portion of an entity” is conceptually the same as “Reportable Segment” defined in the IFRS 8 *Operating Segment*. We suggest that the proposals for the framework should clarify this point.

Question 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?

Comments

CGA-Canada agrees that completion of the reporting entity concept should not be delayed until consolidation standards have been issued. It is, in fact, believed that the completion of the reporting entity concept and other conceptual framework projects should precede the issuance of other important standards like consolidation. Please also refer to our additional comments below.

Additional Comments

We are concerned that the conceptual framework projects are not accorded the highest priority by IASB and are not likely to be completed before other IFRSs projects. We also note paragraph P10 in the ED which states that neither the IASB's *Framework for the Preparation and Presentation of Financial Statements* nor the FASB *Concepts Statements* override authoritative standards, even though some may be inconsistent with them. This position is contrary to the following statement in paragraph BC23.

“However, the main purpose of the conceptual framework is to aid in developing standards, which implies that concepts come first.”

We would like to point out that a robust and comprehensive conceptual framework has played a central roll in the advancement of knowledge in the case of all physical and social sciences. Hence, we believe that IFRSs should logically flow from the conceptual framework and the development of the conceptual framework should not be pre-empted and/or directed by existing or evolving IFRSs. We are of the opinion that completion of the conceptual projects is *sine qua non* for developing high quality and durable IFRSs, and that the conceptual framework should be accorded the highest authoritative status in the hierarchy of the Generally Accepted Accounting Principles.

Should you wish to discuss the contents of this comment paper or require further elaboration on any of the items presented herein, please do not hesitate to contact Kamalesh Gosalia at kgosalia@cga-canada.org or alternatively the undersigned at rlefevre@cga-canada.org.

Sincerely,

[Original signed by:]

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Vice-President, Research & Standards