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| To: | AASB members | Date: | 27 May 2010 |
| From: | Jim Paul | Agenda Item: | 10.1 |
| Subject: | Conceptual Framework – Reporting Entity | File: | P52 |

Action

Decide the issues to raise, and the recommendations to make, in the Board's submission on IASB Exposure Draft ED/2010/2 *Conceptual Framework for Financial Reporting: The Reporting Entity*

Background

AASB ED 193 invites comment on the above-named IASB ED by 21 June 2010. No comment letters have been received on it to date. The deadline for submissions to the IASB is 16 July 2010.

The attached AASB staff paper entitled *Conceptual Framework: The Reporting Entity* was originally prepared for the information of those attending the April 2010 meeting of National Standard Setters. It provides background to the reporting entity concept in SAC 1 *Definition of the Reporting Entity*, and sets out the AASB staff's concerns regarding the IASB ED. The key issues in that paper, on which Board members' views are sought, are identified in the four questions below. Key reasons for the staff's views on some questions are also set out briefly below.

Questions for Board members

Question 1

The concept of a reporting entity in the IASB ED determines the substance of an entity that prepares GPFs and identifies the boundaries of such an entity. The question is:

Should the concept of a reporting entity also specify the following matters:

- (a) *the principle for identifying entities that should prepare GPFs; and*
- (b) *the characteristics of entities that should prepare GPFs?*

Such additional matters are addressed by SAC 1. SAC 1 reflects the view that a logical extension of specifying, in concept, the information content of financial reports for those who cannot command the presentation of particular information to them (that is, defining the nature of a public good) is specifying, in concept, which entities should provide that information (public good).

Question 2

Should the Framework chapter on the concept of a reporting entity include a definition of an 'entity' and specify that a reporting entity must satisfy the definition of an entity?

Unlike SAC 1, the IASB ED does not include a definition or description of an entity. The SAC 1 definition of an 'entity' requires economic activities, a management, *and includes all economic activities controlled by that management*. In contrast, any set of objectively distinguishable economic activities (which may be a component of an entity as defined in SAC 1) could qualify as a reporting entity under the IASB ED, provided that financial information about those activities is potentially useful to dependent users. Therefore, a clear distinction does not appear to have been made in the IASB ED between entities and groups of assets of potential interest to users. This also implies control determines the boundaries of group reporting entities but not necessarily the boundaries of individual reporting entities.

Question 3

Should the Framework chapter on the concept of a reporting entity also indicate the relevance of that concept to standard setters? For example, should it:

- (a) discuss whether financial statements held out to be prepared in accordance with IFRSs should be deemed to be prepared in respect of reporting entities? and*
- (b) identify the basis for assessing whether to continue to provide parent entities a conditional exemption from having to prepare consolidated financial statements if they are wholly-owned subsidiaries and, in effect, are not publicly accountable?*

Question 4

Are there any other issues not dealt with in the IASB ED that should have been included?

Attachments

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| Agenda Paper 10.2 | AASB Staff Paper: <i>Conceptual Framework: The Reporting Entity</i> |
| Agenda Paper 10.3 | AASB ED 193 <i>Conceptual Framework for Financial Reporting: The Reporting Entity</i> (incorporates the IASB ED of the same title) |