



New South Wales
TREASURY

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Dear Mr Stevenson

**Exposure Draft 193 Conceptual Framework for
Financial Reporting: The Reporting Entity**

New South Wales Treasury welcomes the opportunity to provide comments on the above Exposure Draft.

NSW Treasury is concerned that the reporting entity chapter for the *Framework* may be insufficient for Australia's needs and is not of comparable quality to SAC 1. In particular, we note that unlike SAC 1, the focus of the IASB proposal is on describing the boundaries of the reporting entity. However, it does not address the principle about who should prepare a general purpose financial report or the characteristics of a reporting entity.

Therefore, we are concerned that adopting the IASB proposal could increase inconsistency in who prepares general purpose financial statements. The description of a reporting entity is so broad as to include segments and portions of entities that have no capacity to control resources, which have not traditionally been regarded as reporting entities. The ambiguity of the IASB proposal may also undermine the AASB objective to retain the reporting entity as the benchmark principle for other regulators to identify entities that should prepare general purpose financial statements and those that need not.

This problem will be compounded for the public sector, given that the IASB is not considering not-for-profit entities until a later phase. While we appreciate that the AASB is separately reviewing the concept of the reporting entity and control from the public sector view point, and we strongly support this, it is still important that in order to maintain sector neutrality, the IASB concepts are sufficiently robust to allow adaptation for not-for-profit and public sector entities.

Other specific public sector specific comments include:

- We are concerned that there is insufficient guidance to allow the public sector to determine whether a 'portion of an entity', such as a government department, is a reporting entity.

- We prefer the term 'users' rather than 'equity investors, lenders and other creditors', in the description of the reporting entity, as it accommodates not-for-profit entities and the public sector.
- In the definition of 'control of an entity', we prefer the term 'achieve the objectives' to 'generate benefits' because 'benefits' may be interpreted to only pertain to financial or cash flow benefits without any consideration of service delivery objectives.

Detailed comments are attached regarding the questions in the AASB Exposure Draft, along with a copy of the comments provided to the IASB.

If you have any queries regarding New South Wales Treasury's comments, please do not hesitate to contact me on 02 9228 3019 or Dianne McHugh on 02 9228 5340.

Yours sincerely



Robert Williams
for Secretary

21/6/2010

**AASB Exposure Draft ED 193 *Conceptual Framework for Financial Reporting:
The Reporting Entity***

Specific Matters for Comment

1. Consistent with the initial scope of the IASB-FASB conceptual framework project being for-profit entities in the private sector, are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals by for-profit entities in the private sector

NSW Treasury considers the current SAC 1 to be superior to the IASB ED. However, if the IASB proposals are adopted, we believe that regulatory issues may arise because the IASB proposals may lead to greater ambiguity in the reporting entity concept, compared to SAC 1. As a result, private sector (and public sector) regulators may be less likely to consider whether entities are reporting entities in determining which entities are required to prepare general purpose financial reports. This may mean that entities that are not reporting entities may be required to prepare general purpose financial statements (and vice versa).

Even under the current SAC 1 there are already a number of recent examples where regulators in Australia do not appear to have adequately considered the reporting entity in making decisions about who prepares general purpose financial reports, as follows:

- *Proposed differential reporting framework under the Corporations Act (Corporations Amendment Corporate Reporting Regime) Bill 2010.*
 - This Bill proposes the introduction of a differential reporting framework for companies limited by guarantee, resulting in a three tiered reporting framework based on thresholds, with some totally exempt from reporting.
 - Another proposal in the Bill is to relieve parent entities from preparing and lodging financial statements when they prepare consolidated financial statements. In contrast, even the IASB proposals conclude that parent entity financial statements may provide useful information when presented together with consolidated financial statements (para RE11).
- *NSW Fair Trading Exposure Draft on revised Cooperatives Law (that could be adopted nationally)*
 - Large cooperatives will apply accounting standards
 - Small cooperatives will be exempt from financial reporting

2. As indicated above, the AASB plans to undertake additional consultation with constituents in relation to the applicability of the IASB-FASB proposals in the not-for-profit and public sectors. In the meantime, it would be helpful to the Board to be informed of issues that might arise if the proposals were to be applied in the not-for-profit/public sector. Accordingly, are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals relating to:

(a) not-for-profit entities;

NSW Treasury is unable to provide specific comments for not-for-profit entities in the private sector. However, some of the comments applicable to public sector entities, discussed in response to question 2(b) below, may also be applicable to not-for-profit entities in the private sector.

(b) public sector entities;

The following issues may need to be considered in applying the IASB proposals to the public sector:

Portion of an entity

NSW Treasury believes that the IASB proposal provides insufficient guidance for the public sector in regard to the circumstances when it is appropriate for a 'portion of an entity' to be treated as a reporting entity. There is no clear differentiation between segments (which we have not regarded as reporting entities) and bodies that are reporting entities.

This issue is particularly important in the public sector when determining whether or not government departments and statutory bodies are reporting entities. We agree with the IASB that it is not necessary for reporting entities to be legal entities. However, given the nature of government and administrative arrangements, which often are not in the form of legal entities, it is particularly problematic in the public sector to determine whether a 'portion of an entity' is a reporting entity.

At present, SAC 1 concludes that most departments and statutory bodies are reporting entities after considering the characteristics of a reporting entity. For example, one of the characteristics of a reporting entity that is particularly important in the public sector is the separation between management and owners and the principle of accountability. Accountability is also an important objective of general purpose financial statements in the public sector.

Therefore, as the IASB ED does not consider the characteristics of reporting entities, then the AASB may need to provide additional guidance for the public sector, to fill a gap compared to the existing SAC 1. This issue should also be addressed by the AASB in its current public sector project on the reporting entity. Further issues regarding 'portions of an entity' are discussed in the attached response to the IASB.

Description of a reporting entity

NSW Treasury would prefer that, in the description of the reporting entity, reference is made to 'users' rather than 'equity investors, lenders and other creditors', as it is a more robust approach that will accommodate not-for-profit entities and the public sector.

Definition of 'control of an entity'

In the definition of 'control of an entity', there is a need for a broader notion of 'benefits' than cash flows, as benefits for not-for-profit and public sector entities may be related to service delivery rather than financial gains or losses.

Other public sector issues specifically regarding consolidated financial statements and control (refer the Australian paragraphs in AASB 127 *Consolidated and Separate Financial Statements*) which would need to be addressed include:

- the fact that power to regulate does not of itself equate to control (AASB 127.Aus17.9(d))
- the role of accountability in understanding control (AASB 127.Aus17.2(a))
- when the government has the residual financial interest in the net assets of the other entity (AASB 127.Aus17.2(b))
- Ministerial approval / control / directions (AASB 127.Aus17.3(a))
- the role of legislation, i.e. when the mandate of an entity is established / limited by enabling legislation (AASB 127.Aus17.3(f))
- the controlling entity's ability to deploy scarce resources to achieve objectives; and the specification of separate objectives (AASB 127.Aus.17.7-8)
- the fact that financial dependency is not control (AASB 127.Aus17.9(c)) and
- control versus day-to-day management (AASB 127.Aus17.10).

3. Whether, overall, the proposals would result in financial statements that would be useful to users; and
4. Whether the proposals are in the best interests of the Australian and New Zealand economies.

NSW Treasury is concerned that the reporting entity chapter for the *Framework* may be insufficient for Australia's needs because it is not of comparable quality to SAC 1. That is, in Australia, unlike the IASB, the reporting entity concept in SAC 1 is much more than just defining the boundaries of a reporting entity. The focus in Australia and in SAC 1 has been on using the reporting entity concept to determine who should produce general purpose financial statements, as well as discussing the characteristics of a reporting entity. In this regard, the reporting entity concept has been fundamental. While the AASB is considering changing the focus from the reporting entity to general purpose financial statements, we believe that, even if this proceeds, the reporting entity concept should still underpin the Framework and Accounting Standards in terms of providing guidance to regulators regarding the types of entities that should be required to report.

In view of the above, therefore, we are concerned that, because of the different objectives of the IASB in formulating the reporting entity chapter for the Framework (i.e. focussing on boundaries of the reporting entity), the IASB concept may be insufficient for Australia's needs. Our primary concern is that it is too ambiguous and provides insufficient guidance, which could mean that there will be an increased inconsistency in who prepares general purpose financial statements (i.e. because there is no clear guidance for regulators or preparers).

This problem will be compounded for the public sector, given that the IASB is not considering not-for-profit entities until a later phase. While we appreciate that the AASB is separately reviewing the concept of the reporting entity and control from the public sector view point, and we strongly support this, it is still important that at the fundamental level (in order to maintain sector neutrality), the IASB concepts are sufficiently robust to allow adaptation for not-for-profit and public sector entities.



New South Wales
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Dear Sir David

Exposure Draft ED/2010/2
Conceptual Framework for Financial Reporting

New South Wales Treasury welcomes the opportunity to provide comments on the above Exposure Draft.

NSW Treasury is concerned that the reporting entity chapter for the *Framework* does not address the fundamental principle underpinning the Accounting Standards and *Framework*: that reporting entities *should* prepare general purpose financial statements and that Accounting Standards are developed for such entities.

Instead, the IASB focuses on the boundaries of the reporting entity and is concerned about broadly describing entities that *might* prepare general purpose financial statements (and their boundaries) rather than defining entities that *should*. Similarly, the IASB does not consider the characteristics of a reporting entity and the factors that may be important in assessing whether dependent users exist (e.g. separation of management). Therefore, there is no contrast made between the circumstances where financial statements are likely to be regarded as 'special purpose' rather than 'general purpose'.

We believe that identifying the principle and describing the characteristics of the types of entities that *should* prepare general purpose financial statements is essential guidance for preparers *and* regulators in all jurisdictions. Including such a principle does not deny individual jurisdictions from determining who prepares general purpose financial statements. Rather such guidance assists regulators in determining the types of entities that should be required to prepare general purpose financial statements.

The consequence of the IASB's narrow focus and decision to 'describe' rather than 'define' a reporting entity, which we do not support, means that the draft IASB Chapter cannot be operationalised in any meaningful way. This is demonstrated by the following:

- The use of vague terms that are open to misinterpretation such as:
 - 'circumscribed are of economic activities'
 - 'potential to be useful'
 - 'commingled' economic activities'.
- Inconsistent use of the concept of 'control':
 - Control is used in determining the boundaries of a group reporting entity (as the basis for consolidations), but is not referred to for a single reporting entity.
 - The common control model (i.e. "combined financial statements") is included alongside the controlling entity model without explicit acknowledgement or restriction on its use.
- Not linking fundamental concepts such as definitions of 'general purpose financial statements', 'reporting entity', 'entity' and 'control'.
- Not adequately explaining the types of circumstances where an entity or portion of an entity would or would not be regarded as a reporting entity; e.g. stating that 'parent only' financial statements 'might' provide useful information without explaining the circumstances where that would or would not be the case.

These and other comments are further discussed in Attachment 1. The comments in Attachment 1 should also be read in conjunction with Attachment 2, which summarises the Australian definitions in Statements of Accounting Concepts SAC1, which are referred to by way of contrast, to the proposals in the IASB's ED.

If you have any queries regarding New South Wales Treasury's comments, please do not hesitate to contact me on 612 9228 3019 or Dianne McHugh on 612 9228 5340.

Yours sincerely



Robert Williams
for Secretary
21/6/2010

**IASB Exposure Draft ED 2010/2 *Conceptual Framework for Financial Reporting:*
*The Reporting Entity***

Specific Matters for Comment

Introduction

As discussed in the covering letter, NSW Treasury main concern is that the draft reporting entity chapter, is deficient as it does not address the fundamental principle of who *should* prepare general purpose financial statements.

The principle that reporting entities *should* prepare general purpose financial statements is the premise behind the whole Accounting Standard Framework. The Accounting Standards outline the requirements for general purpose financial statements, based on the Standard setters' views as to what is a reporting entity. We believe that this needs to be made transparent by the IASB. While others may ultimately prescribe who *must* prepare general purpose financial statements in a particular jurisdiction, we believe that the role of the IASB includes providing guidance about who *should* prepare general purpose financial statements.

In this regard, such guidance is useful for preparers, regulators and users. That is, ultimately the *Framework* should not be about accommodating different views about who is currently or may be *required* to prepare general purpose financial statements (i.e. by regulators), as these will effectively be deemed as reporting entities, irrespective of the *Framework*. Rather, we believe that the role of the *Framework* is about outlining the circumstances where general purpose financial statements *should* be prepared, even in circumstances where a regulator does not require them. The *Framework* should be independent of different regulators' practices and should instead describe the position of the Standard-setter about who *should* be reporting.

To help clarify this important principle, we also believe that it is necessary for the IASB to provide guidance about the characteristics of reporting entities. For example, in Australia's SAC I, this includes considering indicator factors such as the separation of management, economic or political importance/influence and financial characteristics.

The main consequence of the IASB's narrow focus on the boundaries of the reporting entity is that the draft Chapter does not operationalise the reporting entity concept in any meaningful way. By describing the reporting entity, rather than defining it, the draft Chapter provides limited useful guidance, as it is more concerned with broadly describing entities that *might* prepare general purpose financial statements rather than defining entities that *should*. This is further discussed in the following comments.

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?

No. NSW Treasury is concerned that the description of the reporting entity in the ED cannot be used as a basis to assist preparers and regulators determine who should prepare general purpose financial statements. We believe this is a consequence of the IASB's narrow focus on 'describing' the reporting entity and its boundaries rather than addressing the fundamental principle of who should prepare general purpose financial statements. As discussed in NSW Treasury's response to the August 2008 Discussion Paper, we continue to believe that the 'reporting entity', as a fundamental concept, should be 'defined' rather than merely 'described' (refer NSW Treasury's August 2008 submission on the Reporting Entity Discussion Paper).

We also note that there is no explanation in the Basis for Conclusions about the basis for the IASB's decision not to define the reporting entity. Nor is there a clear explanation of the purpose of the Chapter (and *Framework*) and why it focuses on the boundaries of the reporting entity and does not address the principle of who should prepare general purpose financial statements.

NSW Treasury's main areas of concern with the reporting entity description are outlined in the following.

Reporting entity - Circumscribed area of economic activities

We believe the term 'circumscribed area of economic activities' is too vague and could be misinterpreted.

In particular, NSW Treasury is concerned that the use of the term 'circumscribed area of economic activities' fails to incorporate the concept of control, which we believe is an integral part of the definition of a reporting entity. Therefore, control needs to be made explicit in the definition of a reporting entity. However, as currently drafted, the ED is inconsistent as it only explicitly uses control in terms of a group reporting entity and consolidations (i.e. control of an entity), but it does not use control in terms of defining a single reporting entity.

Without considering control, a 'segment' as currently defined in IAS 8, could be considered a 'circumscribed area of economic activities' and a reporting entity, even though a segment has no capacity to control or deploy resources. To address this, we believe that the IASB needs to include a definition or description of what constitutes an 'entity' (rather than referring to a 'circumscribed area of economic activities').

In Australian Accounting Standards, control is incorporated into the definition of an 'entity', as "...the capacity to deploy scarce resources in order to achieve objectives" (SAC 1, para 6). This links with the concept of "control"; i.e. the phrase 'capacity to deploy scarce resources'. Attachment 2 further illustrates how control is linked to the reporting entity in Australia.

Reporting entity - Potential to be useful

NSW Treasury does not agree with the term 'potential to be useful' in the description of a reporting entity. Instead we prefer the phrase "users *dependent* on general purpose financial reporting" in the Australian SAC 1 (italics added) (SAC 1, para 40). We believe that there is a significant difference between something being "potentially useful" compared to circumstances where a user is "dependent" on the financial information. That is, in our view, the 'potential of information to be useful' is not adequate to make a 'circumscribed area of economic activities' a reporting entity.

While the reference in the IASB ED to users "who cannot directly obtain the information", is supported, we believe that it comes too late in the description of the reporting entity, to make clear the important concept; i.e. that users are "dependent" on general purpose financial statements. The wording in the Australian SAC 1 definition of a reporting entity is also preferred, because by explicitly referring to 'general purpose financial reporting' (rather than "financial information" in the IASB ED), it links the 'reporting entity' to the definition of 'general purpose financial statements' in IAS1, based on users' "information *needs*".

The concept of user dependence also underlies the distinction between 'general purpose' and 'special purpose' financial statements. That is, information may be "useful" to users but those users may not be "dependent" on the general purpose financial statements for that information, as they may be able to command such information (e.g. where there is no or little separation between owners and management). This distinction between general purpose and special purpose financial statements is not made clear by the IASB.

Further, the use of the phrase 'potential...to be useful' also flows through to the IASB's assertion that a 'portion of an entity' could be a reporting entity, which we do not support (unless it is an 'entity' itself) (refer response to question 3).

Reporting entity - Equity investors, lenders and other creditors

We prefer the term 'users' to 'equity investors, lenders and other creditors'. In the future, the needs of other users (that are not capital providers) are likely to become increasingly important, in both the public and the private sectors, with the widening perspective of corporate responsibility. The use of a generic term is a more robust approach that will accommodate not-for-profit entities, but which is equally relevant to for-profit entities.

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?

NSW Treasury agrees that an entity that controls one or more entities and prepares financial reports should present consolidated financial statements.

However, NSW Treasury does not agree with the definition of 'control of an entity', as discussed further below. We also note that, in the public sector in Australia, we have a separate AASB project which is examining the reporting entity concept and control from a public sector view point, including the role of accountability, the power to regulate and the role of legislation. This may lead to divergences with the IASB *Framework*.

Control of an entity - Power to direct

We agree with the substance behind the term 'power to direct' in the definition of 'control of an entity'. However, we would prefer the Australian Accounting Standards Board equivalent -- 'capacity to dominate decision-making, directly or indirectly...' (SAC 1, para 6) (refer Attachment 2), as this better identifies the core concept of control (i.e. to dominate decision making), and does not require the *direct* exercise of power. For example, the Australian reference to 'dominating decision making' and 'directly or indirectly' better captures special purpose entities; i.e. where there is a capacity to dominate decision making indirectly by establishing a structure which then operates on auto-pilot, such that the entity has delegated those decision-making powers.

Control of an entity - Benefits

We do not support the term 'generate benefits' in the definition of 'control of an entity'. 'Benefits' may be interpreted to refer only to financial or cash flow benefits. We prefer the current Australian Accounting Standards Board wording in its definition of 'control', which refers to 'achieving the objectives' (SAC 1, para 6) (refer Attachment 2). This broader term includes service delivery objectives, which is more appropriate for not-for-profit entities than 'generate benefits'. Moreover, 'achieving objectives' is equally appropriate in the private sector.

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?

NSW Treasury believes that a portion of an entity can only be a reporting entity where it is an entity itself, that is, it has the capacity to deploy resources to achieve objectives (per definition of an 'entity' in Australian SAC 1, para 6) (refer Attachment 2). That is, as discussed in response to question 1, we believe that control should be considered in defining both a single and group reporting entity. On this basis, we do not believe that a segment or a branch constitutes a reporting entity, as they are not capable of controlling / deploying resources.

As currently drafted, we do not believe that the wording in the IASB ED provides useful guidance, as it is based on two ambiguous concepts that could be interpreted widely; i.e. "circumscribed area of economic activities" and "potential to be useful". Further, the use of the phrase "*could* qualify as a reporting entity" (italics added) is insufficient, where there is no additional guidance provided to help distinguish between the circumstances where this may or may not be appropriate. This is also discussed in the response to question 1.

In this regard, we note that a particular issue for the public sector is whether government departments, which are not separate legal entities, are reporting entities. We agree with the IASB that it is not necessary for reporting entities to be legal entities. Further we believe that government departments are an example in the public sector where a 'portion of an entity' is an 'entity' (i.e. able to deploy resources) and a 'reporting entity' (with dependent users unable to command information). This is also supported by the Australian SAC 1, which concludes that most departments are reporting entities, based on a review of certain indicative factors or characteristics of a reporting entity. These factors, including separation of management from economic interest, economic or political importance / influence and financial characteristics (e.g. resources controlled), help clarify the distinction between a 'reporting entity' and a 'segment' (which we would not regard as a reporting entity).

Similarly, we believe it is essential that the IASB outlines the characteristics of a reporting entity, in determining the circumstances when a 'portion of an entity' is a reporting entity. Such guidance is necessary as this assessment is not clear cut, in either the public or private sector.

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?

NSW Treasury agrees that the reporting entity concept should not be delayed. It forms part of the Conceptual Framework project, which should have the top priority. However, care should be taken in ensuring that the results of the two projects are consistent and do not conflict.

Other NSW Treasury comments

Commingled activities

NSW Treasury also has concerns with the statement that an '*entity may not qualify as a reporting entity if ... its economic activities are commingled with the economic activities of another entity and there is no basis for objectively distinguishing their activities*' (emphasis added) (para RE5). We are concerned that the reasoning for this statement is not explained and may not be understood. For example, does this apply to circumstances (such as those that arise in the public sector) where entities act on behalf of other entities, sometimes free of charge. We do not believe that the 'commingling' of economic activities is a valid argument against separate reporting, where entities are separate legal entities with their own statutory objectives.

Combined Financial Statements

NSW Treasury is also concerned about the section on 'combined financial statements' (paragraph RE12). The concept of 'combined financial statements' is based on the 'common control model', which is included alongside the 'controlling entity model', without explicit acknowledgement or restriction on its use.

We believe that this is problematic, as we are not convinced that ‘combined financial statements’, necessarily constitute a reporting entity, if it excludes the controlling entity. We believe that a reporting entity should include information about *all* resources able to be deployed / controlled; i.e. including the controlled and controlling entities. Therefore, we do not believe that an entity should be permitted to prepare combined financial statements, just because a controlling entity is not required to produce general purpose financial statements or does not choose to do so. The view on combined financial statements seems to undermine the concepts of control and consolidated financial statements.

Further, the proposal in regard to ‘combined financial statements’ is unclear in a number of other respects:

- It is not clear in what circumstances it is appropriate to prepare combined financial statements. The proposal refers to existing practices of when combined financial statements are prepared (i.e. when the controlling entity does not prepare financial reports), but it is not clear whether the proposal is meaning to restrict the use of combined financial statements and whether it is appropriate in all circumstances where the controlling entity does not prepare financial reports.
- It is not clear whether this is also meant to address situations where there is no entity identifiable as the controlling entity, such as in government. In which case, it is not a matter of excluding information about the controlling entity. That is, the controlling entity is included, but it is not explicitly identified.
- It is not clear that combined financial statements that exclude the controlling entity are general purpose financial statements (e.g. particularly the example given in BC 25 which refers to individuals and families).

Parent entity

The ED implies that a parent entity may be a reporting entity, as it states that parent-only financial statements ‘*might* provide useful information if they are presented together with consolidated financial statements’ (para RE11). However, there is no explanation to support why and when a parent entity may be a reporting entity. Further, the ED does not address, at a conceptual level, why it may be appropriate in IAS27 to exempt parent entities from preparing consolidated financial statements where they are wholly owned subsidiaries.

Cannot directly obtain the information

An important aspect of the description of the reporting entity is that it pertains to information that cannot be directly obtained. However, some of the examples given in the basis for conclusions appear to be circumstances where the information could be commanded and so may be ‘special purpose financial statements’ rather than ‘general purpose financial statements’; e.g. sole proprietorship seeking funding from a bank, information for prospective purchasers (para BC 10), combined financial statements, where the controlling entity is a family (para BC25). As discussed previously, we believe the focus should be on defining the types and characteristics of entities that should be required to prepare general purpose financial statements. In our view, for example, the separation of management from ownership is an important indicator of there being users dependent on general purpose financial statements, such that it would be unlikely for a sole proprietorship to be regarded as a reporting entity.

Entity vs Proprietary perspective

There is no reference to whether the financial statements are produced from the 'entity perspective' versus the 'proprietary perspective'. This was a question in the 2008 Discussion Paper on the Reporting Entity which still has not been adequately addressed or referred to in the Basis for Conclusions.

Risks and rewards

While we agree that on its own the risk and rewards model is not conceptually robust. We believe that it would be useful for the IASB to explain that control of an entity includes the notion of risks and rewards. This is not clearly explained, as the Basis for Conclusions only states that "benefits" in the definition of 'control of an entity' "...could have been loosely described as risks and rewards" (para BC15). For example, it may be useful to acknowledge that in implementing the controlling entity model that an assessment of risks and rewards may be useful.

Control and the Reporting Entity - Australian SAC 1

The importance of the link between 'control', 'entity' and 'reporting entity' is illustrated in Australia, as follows (refer Statement of Accounting Concepts 1, para 6 and 40) (italics added):

- "Reporting entities": Are all *entities* (including economic entities) in respect of which it is reasonable to expect the existence of users dependent on general purpose financial reports for information which will be useful to them for making and evaluating decisions about the *allocation of scarce resources*.
- "Entity": Any legal, administrative, or fiduciary arrangement, organisational structure or other party (including a person) having the *capacity to deploy scarce resources in order to achieve objectives*".
- "Economic entity": means a group of entities comprising a *controlling entity* and one or more *controlled entities operating together to achieve objectives* consistent with those of the controlling entity.
- "Control": The capacity of an *entity* to dominate decision making, directly or indirectly, in relation to the financial and operating policies of another entity so as to enable that other entity to *operate within it in achieving the objectives of the controlling entity*.

The italicised words demonstrate the link between the concepts of the reporting entity, entity, economic entity and control. These definitions are used in some of the comments made in Attachment 1, to contrast with the use in the IASB's ED.