

ED193 sub 3

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The Chairman
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Dear Chairman

ED 193: Conceptual Framework for Financial Reporting: The Reporting Entity

My brief comments on the proposals in ED 193 are attached.

If you wish to discuss any of the issues raised in the submission I can be contacted by email at ian@company-accounting.com.

Best wishes

Ian Langfield-Smith FCPA

Structure of the Exposure Draft

No section containing relevant definitions:

It strikes me as peculiar that there is no section in which formal definitions of the important terms used in the document can be found. For definitions to be useful and lacking in ambiguity, they must be clearly distinguished from the discussion of those definitions. This has not been done in the Exposure Draft, and consequently it is infinitely more difficult to understand.

It may be that this omission is due to the fact that ED 193 will ultimately form part of a unified conceptual framework; however this could be appropriately dealt with by adopting an structure that allows for this.

Indication that terms are defined (use of italics) but no definition included

I note that several terms are in italics (for example significant influence), which suggests that they are or should be defined. However, no definition of those terms is included. Such sloppiness is inexcusable.

I note that the Boards are apparently providing a description of a reporting entity rather than a definition ... but it is unclear why they have decided to do so. Descriptions are not definitions and cannot logically be used to develop an coherent and logically derived conceptual framework.

Lack of logic in development of reporting entity

One would expect that before attempting to define reporting entity that a stand-alone and independent definition of entity would first be addressed. A failure to do so indicates a lack of rigour and has the potential to cause considerable confusion. By first defining the term entity it is then much easier to define reporting entity and much easier to distinguish reporting entities from those entities that are not reporting entities.

Description/definition of reporting entity

The approach taken completely fails to distinguish the role of common economic activity and associated grouping of users who cannot directly obtain information when identifying the boundaries of a reporting entity. While it is clear from the discussion that one legal entity may comprise two separate reporting entities or that two or more legal entities may comprise a single reporting entity, and it appears that there can otherwise be multiple reporting entities, there is no nexus drawn between such multiplicity and the existence of distinct and separate information needs of some groups of users. For example, in a pyramid group structure, where at each level there is non-controlling shareholders, it would seem that the common economic activity in which users are interested will differ depending on whether they are, for examples, shareholders of the ultimate parent or shareholders of an intermediate parent (that is non-controlling shareholders). It is doubtful that consolidated financial statements of the entities controlled by the ultimate parent will adequately meet the information needs of non-controlling shareholders several levels down the pyramid. It is the commonality of information needs about a particular economic activity, and the inability to require the entity to provide it, that is often important in determining the boundaries of a particular reporting entity, rather than solely relying on 'circumscribed area of economic activities'. This fact is not adequately reflected in the description in RE2 or the following discussion.