PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

Freshwater Place
2 Southbank Boulevard
GPO BOX 1331L
Melbourne Vic 3001
Australia
www.pwc.com/au
Telephone +61 3 8603 1000
Facsimile +61 3 8613 2308
Direct Phone 03 8603 3868

Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

26 July 2010

Dear Kevin

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

I am enclosing a copy of the PricewaterhouseCoopers response to the International Accounting Standards Board's exposure draft ED/2010/2 *Conceptual Framework for Financial Reporting: The Reporting Entity*. The letter reflects the views of the PricewaterhouseCoopers network of firms and as such includes our own comments on the matters raised in the exposure draft.

We would welcome the opportunity to discuss our views at your convenience. Please contact me on (03) 8603 3868 if you would like to discuss this further.

Yours sincerely

Jan McCahey

Jan McCahey
Partner
Assurance

PricewaterhouseCoopers LLP
300 Madison Avenue
New York NY 10017
Telephone (646) 471-3000
pwc.com

16 July 2010

Ms. Li Li Lian
Project Manager
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH
United Kingdom

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116
United States of America

RE: File Reference No. 1770-100: Exposure Draft - Conceptual Framework for Financial Reporting: *The Reporting Entity*

We are responding to your invitation to comment on Phase D of the Boards' Conceptual Framework project on behalf of PricewaterhouseCoopers. "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We agree with the Boards' view that to consistently achieve useful financial reporting, the body of standards taken as a whole, and the application of those standards, should be based on a framework that is sound, comprehensive and internally consistent. Until such time as IFRS is adopted in the United States, we agree that a single framework shared by both Boards is more likely to lead to convergence on a set of high-quality solutions.

Because of its pervasive use in the Conceptual Framework and authoritative accounting literature, we agree that a definition of a Reporting Entity is appropriate and helpful. We appreciate the Boards' improvements to the exposure draft from the May 2008 discussion paper, specifically with regard to the reduction in specific guidance related to the application of a control-based consolidation model, which is better suited to the standards-level project.

In the Appendix to this letter we have included our responses to the specific questions posed by the Boards.

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We invite the Boards to address questions in relation to this letter to any of the following individuals. We suggest, however, in order that we may respond in the most timely manner, that the IASB initially contact either John Hitchins (+44 20 7804 2497) or Peter Holgate (+44 20 7213 5675), while the FASB initially contact either Dave Kaplan (+1 973 236 7219) or Valerie Wieman (+1 646 471 5027).

Yours faithfully,

PricewaterhouseCoopers LLP

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APPENDIX

Exposure Draft - Conceptual Framework for
Financial Reporting: *The Reporting Entity*
Comments of PricewaterhouseCoopers LLP

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? If not, why?

The May 2008 Discussion Paper (DP) included a possible description of a reporting entity as a "circumscribed area of business activity of interest to present and potential equity investors, lenders, and other capital providers." In paragraph 26 of the DP, the Boards addressed concerns that such a description might imply that the existence of a "circumscribed area of business activity" depends upon the existence of external capital providers that are interested in that business. The Boards expressed a view that "the business exists, irrespective of whether there are external capital providers..." and that the description was merely a means to convey that the framework was focused on the needs of capital providers, but that the framework could be applied more broadly. We agreed with the Boards' view.

Since that time, the objective of financial reporting has evolved in connection with the development of Phase A of the Conceptual Framework project. We agree that the description of a reporting entity should maintain a direct linkage to the objective of financial reporting, and therefore support the proposed description.

We are concerned, however, with one aspect of the three features identified as "necessary" in paragraph RE3. RE3(c) describes what is sometimes referred to as "stewardship," in that it describes the ability to assess whether "the management and the governing board have made efficient and effective use of the resources provided." It is the implication of a single management team that we believe may have unintended consequences. It is common practice to aggregate separate businesses to create a single set of financial statements. Such statements may serve several purposes, including instances where combined statements, or "newco" statements are required in advance of a business combination. We support the continued ability to create such statements even if the businesses included within the statements were not subject to common management. We therefore recommend that the language provide for the possibility of more than a single management team.

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? If not, why?

We agree with the application of the control model in order to determine which entities to consolidate. We also agree that consolidated statements are most likely to provide useful information to the greatest number of users. We believe there are cases where parent-only information is also useful, but support the Boards' proposal that entities should present those statements only if accompanied by consolidated statements.

We acknowledge that this is a significant matter for many statutory entities applying IFRS. IAS 27 currently allows the preparation of parent-only financial statements if certain criteria are met. There are several jurisdictions where IFRS compliant, parent-only statements are required. We remind the Boards that in many cases, the creation of companion consolidated financial statements would result in increased cost and burden financial reporting resources

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? If not, why?

We agree that a portion of an entity may qualify as a reporting entity. However, the summarization of the requirements in RE6 increases the opportunity for inconsistency in application. We believe the final text should state that a portion of an entity may qualify as a reporting entity if it has the necessary features of a reporting entity as described in RE3.

4 The FASB and the IASB 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? If not, why?

Yes. We recommended in our September 2008 response to the Boards' Discussion Paper that the Conceptual Framework should include a broad description of control, but that the detailed application should be left to the standards-level project. Completion of the reporting entity concept prior to completing the consolidation standard is consistent with that recommendation.