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Chère Mme Flores

IASB ED *Conceptual Framework for Financial Reporting: The Reporting Entity*

The ICAEW welcomes the opportunity to comment on EFRAG's draft comment letter, published in March 2009, on the International Accounting Standards Board Exposure Draft ED/2010/2 *Conceptual Framework for Financial Reporting: The Reporting Entity*. Our responses to the main issues highlighted by EFRAG are set out below. A draft of our response to the IASB, which has not yet been finalised, is attached to this letter. This provides further explanation of our views and also considers some additional points not brought-up in the EFRAG response.

Question 1:

- **EFRAG agrees with the proposed broad description of a reporting entity.**

We disagree with the description as currently stated:

Firstly, we are concerned that the exposure draft does not contain a description of an 'entity'. Paragraph RE2 considers a description of a 'reporting entity' without first attempting to describe what an 'entity' is. It is important that the framework should tell us what kind of thing could be subject to the accounting requirements, before moving on to consider which of these could actually report.

Secondly, while we have no particular concerns with the first part of the description of a 'reporting entity' as a 'circumscribed area of economic activities', we are concerned that the remainder of the description repeats concepts surrounding the objective of financial reporting which are already addressed in chapter 1 of the framework. We feel that this concept is best described uniquely in chapter 1 and that the Reporting Entity chapter should therefore refer back to the original description.

Question 2

- **EFRAG considers that a definition of 'control' should be included in the Conceptual Framework. However, EFRAG believes that the definition of 'control' should not be developed in the chapter dealing with the Reporting Entity; rather it should be developed so that its application can be considered more broadly.**

We agree. We believe that a single definition of control should be contained within IASB literature, and that The Reporting Entity chapter is not the appropriate place for the definition to be made. Rather, this chapter should refer to a unique definition of control that is contained elsewhere.

- **The Reporting Entity chapter should identify control as the basis for the aggregation of economic activities in preparing financial statements.**

We believe it is not the place of the framework to mandate when a particular accounting treatment should be applied. Therefore this chapter should be silent on whether control should be the basis for aggregating economic activities. Rather, this chapter should contain descriptions of what consolidated; parent-only; and combined financial statements are and then leave the application of these concepts to the standards level.

Question 3:

- **EFRAG agrees that a portion of an entity can qualify as a reporting entity if that portion meets the description and characteristics of a reporting entity.**

We would add a qualification to this point. We believe that this concept needs further development in the context of creditors. RE2 identifies creditors as one of the sub-groups of users of financial statements. Creditors will be interested in the legal boundaries of an entity; either that surrounding a limited liability entity, or the contractual boundary for a borrower group in a debt agreement. In such situations creditors will be interested in legal liability, whether statutory or contractual, as one of the factors that may be relevant in defining the information in the financial statements

Branches should also be considered in more detail. In particular we note the question surrounding whether a branch can be an independent reporting entity when it is a sub-set of a larger legal entity which itself reports. Articulation of this relationship and when it would be appropriate for a branch to report separately would be helpful.

Question 4:

- **EFRAG agrees that the project should not be delayed until the standards on consolidation have been issued.**
- **EFRAG continues to urge the IASB to give the completion of the different chapters of the Conceptual Framework a high priority.**

We agree. Appropriate description of the reporting entity at the framework level is necessary to ensure that the concept can be applied consistently in the development of standards. Therefore work to complete this chapter of the framework should proceed without delay to support the further development of standards in this area.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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