acteo Association pour la participation des entreprises françaises à l'harmonisation comptable internationale

Mouvement des Entreprises de France MEDEF

IASB
30 Cannon Street
London EC4M 6XH
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Paris, July 8, 2010

Re: *Exposure Draft: Conceptual Framework – The Reporting Entity*

We welcome the opportunity to comment on the IASB exposure draft "Conceptual Framework for Financial Reporting – The Reporting Entity (the ED)".

We still have some reservations about some aspects of the ED:

- The Conceptual Framework (the Framework) still lacks a full analysis of the attributes of consolidated financial statements which make them useful to users;

- Without such analysis, the limiting of the consolidation solely to entities which the reporting entities controls exclusively is difficult to justify; we think that more consideration needs to be given to defining the boundaries of the reporting entity in the light of the cash flows and benefits it obtains from the activities it participates in;

- In IFRS, the notion of control is pertinent both to assets and to the relationship between the reporting entity and other entities; in our view, control should be defined in the Framework at the level which makes it consistent for use in the context of both of these (that is, at a higher level than that of the reporting entity chapter); then, in the chapter relating to the reporting entity, control of entities or activities would be identified as one of the principles behind the preparation of aggregated financial statements.

In addition to these principal comments, we provide answers to the detailed questions of the invitation for comment in the appendix.
Should you require any supplementary comment or explanation, please do not hesitate to contact us.

ACTEO	AFEP	MEDEF
Patrice MARTEAU	**Alexandre TESSIER**	**Agnès LEPINAY**
Chairman	Director General	Director of economic and financial affairs

Appendix to our letter on the IASB Exposure Draft Conceptual Framework for Financial Reporting – The Reporting Entity

Question 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?

We agree with this broad description of the reporting entity.

We also agree with reference to the objective of general purpose financial reporting which includes two important aspects: the making of decisions about providing resource to the entity and the assessment of whether the management and governing board have made efficient and effective use of the resources already provided

Question 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?

We agree that an entity that controls one or more other entities should present consolidated financial statements. This is, however, only a small part of the more fundamental issue of the purpose of aggregated financial statements and consequentially the boundaries of the entity whose activity and position such statements are intended to represent.

We think that it is a prerequisite that the Framework should contain a description of what the purpose of consolidated (or combined) financial statements is. Once that has been adequately determined the question of the boundaries of the reporting entity, that is, which activities should be included and on what basis, can be defined. We are still waiting for a convincing analysis of why and how the control model is relevant, and why and how it is more relevant than the risk and rewards model. This was missing in the Discussion Paper and, in our view, is still absent from the ED.

The ED states that consolidated financial statements should not include information about entities other than those it controls. Although this is consistent with the definitions included in current IAS 27 and the summary decisions made in ED 9 Joint Arrangements, we think that such conclusions should not be included in the Conceptual Framework without providing a clear rationale for this decision. We cannot find any such consideration or rationale in the ED or its Basis for Conclusion.

Furthermore, we think that the argument in paragraph RE8 in favour of control as the primary criterion for consolidation could equally well justify the inclusion of information relating to jointly-controlled entities in consolidated financial statements. Many reporting entities operate a substantial part of their activities through jointly-controlled entities for commercial reasons or because of jurisdictional restrictions.

Such reporting entities depend significantly on the activities of those jointly-controlled entities for their cash flows, and thus would, at first sight, satisfy the conditions for information in respect of these activities in the consolidated financial statements.

In BC 26, the Board asserts that proportionate consolidation is not a method of consolidation but a method of accounting for an investment. Given the restrictive definition of a consolidation in IAS 27, this may be right, but we think that it is the Conceptual Framework which should provide the justification for, and the principles behind, the consolidated financial statements rather than rely on the definition developed in a standard.

In our view, the Board has dismissed the question of the inclusion of information about jointly-controlled activities without proper consideration. We therefore think that the Conceptual Framework should include a thorough analysis of the relevance and usefulness of including information about entities in which the reporting entity has joint control or shared control and the most appropriate method for reflecting such activities in the consolidated financial statements.

Finally, in current IFRS, the term "control" is used both in the definition of an asset and in that of the reporting entity's relationship to other entities. We think that the Conceptual Framework should define the notion of control in such a way that it can be applied in a consistent manner to assets and entities throughout IFRS. Individual standards should enhance the generic definition to ensure that it is clear how the notion of control should be applied to assets, entities and other elements.

Question 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 with the discussion in paragraph RE6 that a portion of an entity could qualify as a reporting entity. However, we do not think it is clear what the word "objectively" means in the phrase "distinguished objectively". If the purpose of this is to preclude the use of a distinction based on a percentage of an entity, and thus preclude proportionate consolidation, then we do not agree with its inclusion. We discuss this matter further above.

Question 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 chapter of the Conceptual Framework should not be delayed until those standards have been issued? If not, why?

We agree that the Conceptual Framework should not be delayed pending the completion of the consolidation standards. However, those standards must be consistent with the Framework, and thus any new concepts introduced in those standards must be properly debated in the context of the Framework.

Other comments

Parent only financial statements

We believe that parent-only financial statements can provide useful information in addition to consolidated financial statements. As a result, we are opposed to any statement that consolidated financial statements with the current set of disclosures are self-sufficient. Indeed we believe that capital providers of the parent company need, at the very least, information such as the valuation of the investments of the parent in the subsidiaries, the extent and characteristics of the liabilities which are born by the parent company and related party transactions from the perspective of the parent only, etc., information which is today included in the parent-only financial statements.

We believe that determining why and how parent-only financial statements are useful, whether they should be required in part or in their totality as a supplement to consolidated financial statements, whether they have an information value in their own right, all represent a substantial amount of work to be carried out before a valid conclusion can be drawn at the conceptual level. We would therefore commend to the Board the view that to satisfy all capital providers of a parent entity both consolidated financial reporting of the group and financial reporting from the parent entity's perspective are necessary; the extent to which both perspectives are required being left to further work at the level of individual standards..

The entity perspective or the proprietary perspective?

The Discussion Paper on the Reporting Entity concluded that the group reporting entity perspective is the more relevant perspective from which the financial statements should be drawn up. We think that the description of the reporting entity in paragraph RE2 of the ED is made implicitly from the entity perspective, but there is no explicit statement or discussion about this in the ED.

In our view, the perspective from which the financial statements are drawn up is fundamental to the Framework and to the accounting standards, since it largely determines the accounting approaches the most appropriate. The debate about this should be thorough and the Framework should clearly state the conclusions and the basis on which they have been made.