

October 9, 2008

Mr. Russell G. Golden  
Director of Technical Application and Implementation Activities  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

**Re: File Reference No. 1580-100**

Dear Mr. Golden:

The Accounting Standards Executive Committee of the American Institute of Certified Public Accountants (AcSEC) is pleased to offer comments on the FASB's and IASB's (the Boards) May 29, 2008 Preliminary Views, *Conceptual Framework for Financial Reporting: The Reporting Entity*.

We support the Boards' effort to improve and converge their conceptual frameworks for financial reporting. In general, we support the conclusions in the preliminary views. However, we have some concerns regarding the level of specificity in the proposed framework. We believe the Boards should be careful not to provide application guidance in the framework, which is better addressed in the individual standards.

We disagree with the control model as defined in the proposed Framework. Specifically, the control model seems to focus on governance and voting control and relegates the concept of risks and rewards to a secondary status. We believe a control model should include both the concept of governance and risks and rewards in determining whether one entity controls another.

We have provided more specific comments in the attachments to this letter.

\* \* \* \* \*

We appreciate the opportunity to provide comments on the proposed Statement. In addition, we are available to discuss our comments with Board members or staff at their convenience.

Sincerely,

Ben Neuhausen, Chair

Accounting Standards Executive Committee

Randall Sogoloff,  
Chair

Conceptual Framework  
Comment Letter

**ATTACHMENT A -- RESPONSES TO SPECIFIC QUESTIONS RAISED IN THE PRELIMINARY VIEWS DOCUMENT**

Q1. *Do you agree that what constitutes a reporting entity should not be limited to business activities that are structured as legal entities? If not, why?*

**AcSEC Comment:** We agree that what constitutes a reporting entity should not be limited to business activities that are structured as legal entities. However, it is unclear what types of activities would constitute business activities. We believe that such activities should be broad and not limited to activities of a business as defined in FASB Statement No. 141(R), *Business Combinations*. The conceptual framework should explicitly state this to avoid any confusion.

Q2. *Do you agree that the conceptual framework should broadly describe (rather than precisely define) a reporting entity as a circumscribed area of business activity of interest to present and potential equity investors, lenders, and other capital providers? If not, why? For example, do you believe that the conceptual framework should establish a precise definition of a reporting entity? If so, how would you define the term? Do you disagree with including reference to equity investors, lenders, and other capital providers in the description (or definition) of a reporting entity? If so, why?*

**AcSEC Comment:** We believe the conceptual framework should broadly describe a reporting entity as a circumscribed area of business activity. A broad description would avoid the potential problem of limiting the definition of a *reporting entity*. Additionally, we believe the reporting entity should not be described in terms of potential financial statement users, such as present and potential equity investors, lenders, and other capital providers. Rather, we believe potential financial statement users should be described broadly and consistent with the definition in the Exposure Draft, *The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information*.

Q3. *Do you agree that the risks and rewards model does not provide a conceptually robust basis for determining the composition of a group reporting entity and that, except to the extent that it overlaps with the controlling entity model (as discussed in paragraphs 102 and 103), the risks and rewards model should not be considered further in the reporting entity phase of the conceptual framework project? If not, why?*

**AcSEC Comment:** We agree that the risks and rewards model alone does not provide a conceptually robust basis for determining the composition of a group reporting entity. However, any model for determining whether one entity controls another entity should contemplate all facts and circumstances, including governance and risks and rewards. There are many types of structures in which voting rights are irrelevant or it is difficult to determine who has governance power over an entity. We believe a model that incorporates both governance and risks and rewards would be able to address all types of structures.

*Q4. Assuming that control is used as the basis for determining the composition of a group reporting entity, do you agree that:*

*(a) control should be defined at the conceptual level?*

**AcSEC Comment:** We believe control should be defined broadly at the conceptual level, and in more detail at the standards level.

*(b) the definition of control should refer to both power and benefits?*

**AcSEC Comment:** Yes, we believe the definition of control should refer to both power and benefits. However, we also believe the definition should incorporate the notion of risk of loss.

*If not, why? For example, do you have an alternative proposed definition of control?*

*Q5. Do you agree that the composition of a group reporting entity should be based on control? If not, why? For example, if you consider that another basis should be used, which basis do you propose and why?*

**AcSEC Comment:** We agree that the composition of a group reporting entity should be based on control.

*Q6. Assuming that control is used as the basis for determining the composition of a group reporting entity, do you agree that the controlling entity model should be used as the primary basis for determining the composition of a group entity? If not, why?*

**AcSEC Comment:** We agree that the controlling entity model should be used as the primary basis for determining the composition of a group entity. However, we believe circumstances may exist in which financial statement users are better served by general-purpose combined financial statements prepared under a

common control model. Accordingly, we believe preparers should be given latitude to apply judgment in determining the appropriate model for determining the composition of a group entity. Also, we ask the Boards to provide additional guidance, at the standards level, to help preparers apply judgment in determining whether combined financial statements are appropriate and how they should be prepared.

*Q7. Do you agree that the common control model should be used in some circumstances only?*

**AcSEC Comment:** We agree that the common control model should be used in some circumstances. However, we do not believe the framework should specifically identify those circumstances. The application of the common control model should be based on facts and circumstances.

*If not, why? For example, would you limit the composition of a group reporting entity to the controlling entity model only? Or would you widen the use of the common control model? If you support the use of the common control model, at least in some circumstances, do you regard it as an exception to (or substitute for) the controlling entity model in those circumstances, or is it a distinct approach in its own right? Please provide reasons for your responses.*

*Q8. Do you agree that consolidated financial statements should be presented from the perspective of the group reporting entity, not from the perspective of the parent company's shareholders? If not, why?*

**AcSEC Comment:** We believe it would be more meaningful to present the consolidated financial statements from the perspective of the parent company's shareholders, rather than the group reporting entity.

In particular, in considering the assets and liabilities of a reporting group, as well as performance and cash flows, information presented from the perspective of the parent company's shareholders is most meaningful. For example, in considering the assets, liabilities, performance, and cash flows of a consolidated group, transactions between the entity and noncontrolling interests are fundamentally different from transactions between the entity and controlling shareholders. Identifying transactions with noncontrolling interests separately, therefore, may be particularly relevant and decision useful to equity investors, lenders, and other capital providers.

(Note that in our October 9, 2008 comment letter on the Boards' May 29, 2008 Exposure Draft, *The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting*

*Information*, we express the view that an entity's financial reporting should be prepared from the perspective of the entity (entity perspective) rather than the perspective of its owners or a particular class of owners (proprietary perspective).

*Q9. Do you agree that consolidated financial statements provide useful information to equity investors, lenders, and other capital providers? If not, why?*

**AcSEC Comment:** We agree that consolidated financial statements provide useful information to users in certain circumstances and should be the primary general purpose financial statements. However, as stated previously, we believe it is inappropriate to presume that financial statement users will always be best served by a controlling entity model. Specifically, we believe circumstances may exist in which general-purpose financial statements comprised of combined financial statements prepared under a common control model better serve the needs of financial statement users than do consolidated financial statements. Accordingly, we believe preparers should be given latitude to apply judgment in determining the appropriate model for determining the composition of a group entity.

*Q10. Do you agree that the conceptual framework should not preclude the presentation of parent-only financial statements, provided that they are included in the same financial report as consolidated financial statements? If not, why?*

**AcSEC Comment:** We agree that the conceptual framework should not preclude the presentation of parent-only financial statements as a supplement to the consolidated financial statements. However, we believe guidance addressing the measurement basis for reporting a subsidiary in the parent-only financial statements should be addressed at the standards level.

*Q11. With regard to the concept of control, in the context of one entity having control over another, do you agree that:*

*(a) establishing whether control exists involves assessing all the existing facts and circumstances and, therefore, that there are no single facts or circumstances that evidence that one entity has control over another entity in all cases, nor should any particular fact or circumstances—such as ownership of a majority voting interest—be a necessary condition for control to exist? If not, why?*

**AcSEC Comment:** We agree that whether control exists involves assessing all the existing facts and circumstances.

*(b) the concept of control should include situations in which control exists but might be temporary? If not, why?*

**AcSEC Comment:** We agree that the concept of control should include situations in which control exists but might be temporary.

*(c) the control concept should not be limited to circumstances in which the entity has sufficient voting rights or other legal rights to direct the financing and operating policies of another entity, but rather should be a broad concept that encompasses economically similar circumstances? If not, why?*

**AcSEC Comment:** The control concept should not be limited to circumstances in which the entity has sufficient voting rights or other legal rights to direct the financing and operating policies of another entity. As noted previously, we believe any model for determining the composition of a group reporting entity should contemplate all facts and circumstances, including governance and risks and rewards.

*(d) in the absence of other facts and circumstances, the fact that an entity holds enough options over voting rights that, if and when exercised, would place it in control over another entity is not sufficient, in itself, to establish that the entity currently controls that other entity? If not, why?*

**AcSEC Comment:** We agree that in the absence of other facts and circumstances, the fact that an entity holds enough options over voting rights that, if and when exercised, would place it in control over another entity is not sufficient, in itself, to establish that the entity currently has the ability to control that other entity. We believe, however, issues pertaining to potential voting rights should be addressed at the standards level.

*(e) to satisfy the power element of the definition of control, power must be held by one entity only? In other words, do you agree that the power element is not satisfied if an entity must obtain the agreement of others to direct the financing and operating policies of another entity? If not, why?*

**AcSEC Comment:** We agree that to satisfy the power element of the definition of control, power must be held by one entity only.

*(f) that having “significant influence” over another entity’s financing and operating policy decisions is not sufficient to establish the existence of control of that other entity? If not, why?*

**AcSEC Comment:** We agree that having “significant influence” over another entity’s financing and operating policy decisions is not sufficient to establish the existence of control of that other entity.

*Q12. Should any of the above control issues be addressed at the standards level rather than at the concepts level? If so, which issues and why?*

**AcSEC Comment:** We believe control should be defined broadly at the conceptual level, and in more detail at the standards level.

*Q13. Are there any other conceptual issues, relating either to the control concept or to some other aspect of the reporting entity concept, that are not addressed in this Preliminary Views and should be addressed at the conceptual level? If so, which issues and why?*

**AcSEC Comment:** We believe not-for-profit organizations (NPO) should be included in the scope of the project. Excluding NPOs from the initial scope of the project, and then later considering the applicability of the conclusions to NPOs may result in different, and less appropriate, NPO GAAP than would exist if NPOs were considered in the initial phase of the project.