



American Institute of CPAs
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July 12, 2010

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

Re: File Reference No. 1770-100

Dear Mr. Golden:

The Financial Reporting Executive Committee of the American Institute of Certified Public Accountants (FinREC) is pleased to offer comments on the FASB and IASB's (collectively, the Boards) March 11, 2010 Exposure Draft, *Conceptual Framework for Financial Reporting: The Reporting Entity* (the Exposure Draft).

We support the Boards' effort to improve and converge their conceptual frameworks for financial reporting. In general, we support the conclusions reached in the Exposure Draft. In particular, we believe that the changes from the original May 29, 2008 Preliminary Views document reflected in the Exposure Draft improve the guidance. However, we do believe that there are several changes that could further improve the conclusions reached.

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

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

Sincerely,

Jay Hanson, Chair
Financial Reporting Executive Committee

Angela Newell, Chair
Conceptual Framework Comment
Letter Task Force

ATTACHMENT A – RESPONSES TO SPECIFIC QUESTIONS RAISED IN THE EXPOSURE DRAFT DOCUMENT

Q1. *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 management and the governing board of that entity have made sufficient and effective use of the resources provided? (See paragraphs RE2 and BC4-BC7.) If not, why?*

FinREC Comment: We agree with the Boards' definition of a reporting entity. We note that paragraph RE2 defines the reporting entity in relation to existing and potential equity investors, lenders, and other creditors. We do not believe it is the Boards' intent to imply that financial statements should be prepared from the parent perspective, as that would conflict with existing standards (for example, the requirement to report noncontrolling interests in equity). However, we believe that the Boards should clarify, either in the basis for conclusions of this document, in another portion of the conceptual framework, or through the standards setting process, whether the definition of a reporting entity intends to imply such a requirement.

Q2. *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? (See paragraphs RE7-RE8 and BC18-BC23.) If not, why?*

FinREC Comment: We agree, in general, that if an entity controls one or more other entities, it should present consolidated financial statements if it prepares financial reports. However, we believe that the requirement to present consolidated financial statements flows directly from the fact that the entity has the power to direct the activities of the other entity(ies). As such, the statement in paragraph RE8 that the cash flows and other benefits of the controlling entity often depend significantly on the activities of the controlled entity and the controlling entity's direction of those activities only serves to confuse a reader. In addition, by adding a discussion of dependence, we believe that the Boards are unnecessarily narrowing the broad definition of control in contradiction of their stated intent.

Furthermore, although we agree, in general, that if an entity controls one or more other entities, it should present consolidated financial statements, we also believe that there are instances in which consolidated financial statements may not provide the most useful information to the greatest number of users of some entities' financial statements—for example, investment companies. In those limited instances, users may find parent-only financial statements to be more informative than consolidated financial statements, either because of the nature of the company's operations, or due to legal or regulatory restrictions or requirements. Moreover, we understand that parent-only financial statements are required for statutory purposes in some jurisdictions. Therefore, we believe the guidance in this Statement should not limit the outcome of any future consideration of the limited

circumstances in which parent-only financial statements may be appropriate, because this project is not sufficiently focused on those matters. Thus, we believe that the Boards should revise paragraph RE11 to reflect that parent-only financial statements may be presented only together with consolidated financial statements, unless other specific standards allow separate presentation.

We agree with the Boards' definition of control in paragraph RE7. In particular, we agree with the Boards' decision to define control in general terms only in this document, and to leave details to be specified at the standards level, as discussed in paragraph BC11. However, as further discussed below in our response to Question 4, we believe it is critical that the definition of control included in any future standards be consistent with this definition.

Q3. 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? (See paragraphs RE6 and BC10.) If not, why?

FinREC Comment: We agree that a portion of an entity could qualify as a reporting entity. However, we believe that the Exposure Draft could be improved by simply stating in paragraph RE6 that a portion of an entity could qualify as a reporting entity if that portion meets the requirements of a reporting entity in paragraph RE3. Introducing a separate, but very similar, definition of a reporting entity when contemplating a portion of a larger entity is unnecessarily duplicative and potentially confusing to readers.

Q4. 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? (See paragraph BC27.) If not, why?

FinREC Comment: We agree that completion of the reporting entity concept should not be delayed until common standards on consolidation have been issued. As noted above, we agree that the concepts of a reporting entity and of control should be defined broadly at the conceptual level, and in more detail at the standards level. Therefore, we believe that it is preferable to complete the reporting entity concept prior to completing the common standards on consolidation, to ensure that those standards do not conflict with the reporting entity concept. However, we strongly believe that the definition of control contained in any resulting common standards on consolidation should conform to the definition of control in the final statement derived from the Exposure Draft.

However, because the Boards are working together to develop common standards on consolidation that would apply to *all* types of entities, we reiterate our belief, as expressed in our response to the original May 29, 2008 Preliminary Views document, that not-for-profit organizations (NPOs) should also be included within the scope of this Statement. We continue to believe that excluding NPOs from the scope of this project, and then later

considering the applicability of the conclusions to NPOs may result in different, and less appropriate, NPO guidance than would exist if NPOs were considered in this project.