

BELGIAN ACCOUNTING STANDARDS BOARD



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Our reference
C-039

Your reference

Date
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Dear Sir,

Dear Stig

Invitation to comment – IASB ED *Conceptual Framework for Financial Reporting: The Reporting Entity*

The Belgian Accounting Standards Board (BASB) is pleased to respond to the Exposure Draft on the Conceptual Framework for Financial Reporting: The Reporting Entity issued by the IASB & the FASB (the "Boards") in March 2010 (hereinafter the "ED").

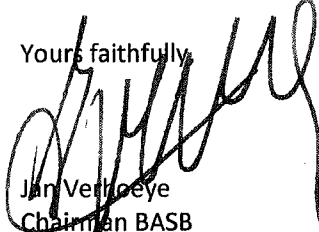
Presently, IFRS sets out the requirements for how a reporting entity should report financial information, but there is no clear description within IFRS of what a reporting entity actually is, or how it should be identified. This has caused problems in preparing financial statements for reporting entities whose make-up or component structure differs from a traditional group reporting structure. To address this problem, the Boards published the ED.

We acknowledge the fact, raised by the Boards, that parent-only financial statements provide useful information if they are presented together with consolidated financial statements. We encourage the Boards including references to parent-only financial statements as we believe, that in conjunction with consolidated financial statements, they certainly provide useful information.

With respect to paragraph S1 of the ED, we are of the opinion that the Boards should include the qualitative aspects of *information*, i.e. the information provided to the stakeholders, under the responsibility of the management, should be reliable and sufficient.

Our answers to the specific questions raised in the ED are included in the attached appendix to this letter. Should you wish to discuss the content of this letter with us, please contact Jan Verhoeve at jan.verhoeve@cnc-cbn.be.

Yours faithfully,


Jan Verhoeve
Chairman BASB

Appendix 1

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? (See paragraphs RE2 and BC4–BC7.)

If not, why?

We agree with this definition.

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? (See paragraphs RE7, RE8 and BC18–BC23.)

If not, why?

We are of the opinion that the preparation and presentation of consolidated financial statements should be based on the control concept as defined in the current IAS 27 *Consolidated and Separate Financial Statements* paragraph 4.

Nevertheless, we also believe that, given the fact that the Boards have tentatively decided that there should be an exception to consolidation for investment companies (as expressed during the joint meeting of 10 February 2010), this conflicts with the overall control concept that is currently expressed in the ED. Hence we expected that the Boards decided on including additional guidance in the Basis for Conclusions with respect to this potential scope exemption of the control concept.

Therefore we would prefer to express our final view on this question once the deliberations with regard to the consolidation project are finalized in order to assess the impact of the proposed consolidation concept with respect to the definition of control of an entity and verify its internal consistency.

We also feel that the example included in the Basis for Conclusions paragraphs 19 & 20 does not provide any additional insights with regard to the concept of consolidation and / or the Reporting Entity. Indeed, the example illustrates that the disclosures, required in IFRS 8 *Operating Segments*, are a fundamental prerequisite for understanding the economic activities conducted by an Entity.

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? (See paragraphs RE6 and BC10.)

If not, why?

In our view, a reporting entity can transcend a legal entity but a legal entity can also transcend a reporting entity. One of our concerns relates to the potential conceptual misunderstanding that might arise between the definition of a reporting entity and an operating segment in IFRS 8. We would suggest including additional guidance, either in the corpus of the ED or in the Basis for Conclusions, that also indicates the potential relation (if any) between an operating segment and a reporting entity.

By defining that an entity can consist of more than one reporting entity, we believe/suppose that the Boards have included conceptual guidance for carve-out transactions/presentations. As this ED is included within the conceptual framework project, we understand that this ED should not elaborate any further on how for instance carve-out or other comparable transactions should be accounted for. Nevertheless, we would expect in the nearby future that the Boards also provide guidance on how these transactions/presentations should be accounted for in the current IFRSs.

In this particular context we also like to refer to paragraph RE12 of the ED that integrates the concept of combined financial statements. Again, we understand that this ED should not elaborate any further on how combined financial statements should be compiled, but we would expect to address this issue in the upcoming consolidation standard.

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 concept should not be delayed until those standards have been issued? (See paragraph BC27.)
If not, why?

We refer to our answers in question 2 and 3 and believe that the Boards should integrate additional guidance with respect to consolidation-related accounting issues that are currently not dealt with within the Standards, in particular we refer to guidance on the preparation of combined financial statements and accounting for carve-out transactions etc.

We also question to what extent the conceptual control definition does not conflict with the tentative exemption given for the investment industry and how the Boards will address this exemption in their consolidation project. In order to ensure the consistency, we believe that the new consolidation standard should comply with the underlying principles of this ED and hence we do not request a delay of this project.