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DSR – öffentliche SITZUNGSUNTERLAGE

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Sir David Tweedie
Chairman of the
International Accounting Standards Board
30 Cannon Street

Berlin, XX June 2010

London EC4M 6XH
United Kingdom

Dear David,

Exposure Draft ED/2010/2 'Conceptual Framework Financial Reporting: The Reporting Entity'

On behalf of the German Accounting Standards Board (GASB) I am writing to comment on the IASB Exposure Draft ED/2010/2 'Conceptual Framework for Financial Reporting: The Reporting Entity' (herein referred to as ED). We appreciate the opportunity to comment on the Exposure Draft.

... [zu vervollständigen; Zusammenfassung der wesentlichen Aussagen zum ED]

Please find our detailed comments on the questions raised in the ED in the appendix to this letter. If you would like to discuss our comments further, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr
President



Appendix – Answers to the questions of the Exposure Draft

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 have made efficient and effective use of the resources provided? If not, why?

- 1 As stated in our comment letter on the preceding discussion paper, we think that the conceptual framework should not provide a definition or description of a reporting entity. We understand the IASB's intention to place limits on what is permitted to be subject of general purpose financial reports. But we are worried that financial statements for particular entities will not allowed to be labelled as "having been prepared under IFRS" because they do not satisfy the IASB's description of a reporting entity. In our view it is up to national legislative bodies or regulatory authorities to decide whether the application of IFRS is required for or allowed by particular entities, even if such financial statements may not be what the IASB has in mind when creating IFRS accounting rules.
- 2 Besides, we find the description of a reporting entity to be unclear to a certain extent. According to the ED, a reporting entity can include more than one entity (aggregation) or it can be a portion of an entity (disaggregation). But it remains vague if a reporting entity can include another or several reporting entities.
 - In case of disaggregation: If there is a legal entity consisting of several parts and if each part meets the description of a being a reporting entity (circumscribed area, information useful), are the parts as well as the legal entity also reporting entities and are both permitted to prepare financial statements under IFRS?
 - In case of aggregation: If entity A (e.g. an entity under control) is a part of a larger entity B (e.g. a group reporting entity) and if both entities meet the description of being a reporting entity (circumscribed area, information useful), is entity A as well



as entity B a reporting entity and are both permitted to prepare financial statements under IFRS?

- 3 In addition, the ED states in paragraph RE5 that a legal entity has the potential to be a reporting entity but is not per se a reporting entity. A single legal entity that conducts economic activities and does not control any other entity is likely to qualify as a reporting entity. Does this mean a legal entity that controls any other entity (controlling entity) does not qualify as being a reporting entity? However, paragraph RE11 says 'parent-only' financial statements may provide useful information. In over view the ED does not clearly state whether 'parent-only' financial statements meet the description of a reporting entity.

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? If not, why?

- 4 We do not agree that if an entity that controls one or more entities prepares financial reports, it should present consolidated financial statements because it is not in within the scope of the IASB's mandate to define which entities has to prepare (consolidated) financial statements. The responsibility to decide who must prepare (consolidated) financial statements or may do so voluntarily lies solely with the national legislators or regulatory authorities.
- 5 Nevertheless, we believe that the IASB's mandate is to define the basis of consolidation, i.e. to determine all companies to be consolidated if an entity has to prepare consolidated financial statements according to the national legislative bodies or regulatory authorities, and we agree with the IASB's view that the composition of a group reporting entity should be based on control.
- 6 Additionally, we concur that control should be defined at the conceptual framework level as we believe the control concept to be significant for financial reporting. In principle, we



believe that everything that is controlled by a reporting entity should be recognised in the financial statements of the respective entity. Control is a pervasive notion and includes direct control over one's own assets and liabilities as well as having control over assets and liabilities through owning shares in another entity. Therefore, control should not be defined in the Reporting Entity chapter but rather at a higher, more general level in the conceptual framework.

- 7 As expressed in our comment letter on the preceding discussion paper, we furthermore continue to support our position that risk and rewards may serve as indicators of control. In our view, this should be discussed at the conceptual framework level and not solely within the standards on consolidation as currently intended by the IASB.

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?

- 8 Yes, we agree.

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?

- 9 Yes, we agree.



Other comments

XXX ... *[in Abhängigkeit von der Sichtweise des DSR zu ergänzen]*

ENTWURF