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Dear Sir David

Re.: Exposure Draft 2010/2 “Conceptual Framework for Financial Reporting – The Reporting Entity”

We appreciate the opportunity to comment on the exposure draft mentioned above and would like to submit our comments as follows:

General Remarks

The IDW welcomes the development of an improved, updated and converged conceptual framework that includes a reporting entity concept. Furthermore, we support most of the proposals in the exposure draft. However, we would like to reiterate certain of our concerns previously outlined in our comment letter on the discussion paper “Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Reporting Entity”, dated 5 September 2008, and also add some further remarks.

The exposure draft covers certain issues that, ultimately, are the responsibility of national legislative or regulatory authorities, e.g. the description of the reporting entity and the decision as to who is required to prepare (what kind of) finan-

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cial statements. In our view, the boards should clarify that the conceptual framework does not intend to prejudice the final decisions of any national authorities on these issues.

In contrast to the discussion paper, the exposure draft addresses some topics in general terms only (e.g. issues related to control of an entity). We believe that this decision is appropriate, because many of the details included in the discussion paper should be specified at the level of individual standards rather than at a conceptual level.

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?

In general, we agree with the proposed broad description of a reporting entity. What constitutes a reporting entity should not be determined by its legal structure alone; rather the economic substance must also be taken into consideration. Nevertheless, we believe that all legal entities should qualify as reporting entities in their own right.

The exposure draft proposes that a single legal entity may not qualify as a reporting entity if, for example, its economic activities are commingled with the economic activities of another entity and there is no basis for objectively distinguishing their activities. However, as economic activities of many legal entities are in fact commingled to a certain degree, we are concerned that it will not be feasible to determine objectively whether each single legal entity qualifies as a reporting entity under the boards' proposal. Furthermore, financial information on such legal entities may potentially be useful to equity investors and creditors because these parties enter into agreements with legal entities, not economic activities. Thus, the new conceptual framework should provide that each legal entity can be a reporting entity and may prepare financial statements that are appropriate under IFRS, irrespective of the existence, the extent or the identifiability of economic activities.

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 agree that an entity that controls one or more entities and prepares financial reports should present consolidated financial statements. Such consolidated financial statements provide useful information to equity investors, lenders and other creditors. However, our support should not be interpreted as a conclusion on our part that the consolidated financial statements of a group are the only financial statements that are appropriate in this case. For instance, parent-only financial statements as well as consolidated subgroup financial statements might also provide useful information.

The exposure draft proposes that an entity controls another entity when it has the power to direct the activities of that other entity to generate benefits for (or limit losses to) itself. We share the boards' view that the proposed definition of control of an entity should refer to both power and benefits rather than using a risks and rewards model as the only basis for determining the composition of a group reporting 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?

We 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.

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?

In our view, the conceptual framework ought to form the basis for the development of individual standards. This means that conceptual issues have to be deliberated before the concepts are further refined at the standards level. Hence, in our view, the completion of the reporting entity concept should not be delayed until the common standards on consolidation have been issued.

Further Remarks

According to the exposure draft, **parent-only financial statements** might provide useful information (only) if they are presented together with consolidated financial statements. We do not agree with this proposal. In contrast, the final conceptual framework should explicitly accept the presentation of stand-alone parent-only financial statements (or separate financial statements as defined in IAS 27), provided it is clear from their caption that they constitute parent-only financial statements and are not consolidated financial statements. Each set of financial statements provides a different perspective on the resources, claims and activities of the parent. Stand-alone parent-only financial statements also provide useful information. For example, reflecting the legal separation between parent and subsidiaries often allows an understanding of an individual entity's dividend-paying ability. The appropriate caption allows the users of financial reports who possess a reasonable knowledge of economic activities and the ability to read a financial report, to use the information provided by parent-only financial statements in a sensible manner. Furthermore, as mentioned in our general remarks, national authorities are the appropriate bodies to decide on this issue.

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We welcome the proposed new framework establishing a conceptual basis for **combined financial statements**, stating that "combined financial statements might provide useful information about the commonly controlled entities as a group". Details should be determined at the standards level.

We would be pleased to answer any questions that you may have or discuss any aspect of this letter.

Yours sincerely

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