



**The Hundred Group**  
of Finance Directors

**Financial Reporting Committee**

Sir David Tweedie  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London  
EC4M 6XH

17 September 2010

Dear Sir David

**Conceptual Framework for Financial Reporting: The Reporting Entity**

We are pleased to submit our comments on the above proposals.

**Who we are**

The Hundred Group represents the views of the finance directors of the UK's largest companies drawn largely, but not entirely, from the constituents of the FTSE100 Index. Our members are the finance directors of companies whose market capitalisation collectively represents over 80% of that of companies listed on the London Stock Exchange. The views expressed in this letter are not necessarily those of all of our individual members or of their respective employers.

**Summary**

We set out our responses to the Board's specific questions on in the Appendix.

We are strongly supportive of the IASB and FASB releasing such joint statements and working to provide a consistent framework for the development of a strong financial reporting framework. We propose that the Boards should consider the prioritisation of the development of the framework as an essential step towards convergence and to ensure a consistent and cohesive development of standards.

In our answers we draw out some of our key concerns. In particular we feel strongly that the definition of 'control' is a fundamental concept within financial reporting. Consequently we are of the opinion that 'control' should be defined within Chapter 1 of the conceptual framework and this definition utilised in all further references to 'control' within the financial reporting standards.

In addition we feel that the IASB and FASB should not override national legislation over the requirements for the production of financial statements. Where there is no legal requirements for an entity to produce financial statements it would be inappropriate for accounting standards to require this.

Please feel free to contact me if you wish to discuss our comments on the proposals.

Yours sincerely

A handwritten signature in black ink, appearing to read 'C. Lucas'.

**Chris Lucas**

*Chairman*

*The Hundred Group - Financial Reporting Committee*

**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 are of the opinion that the definition as included within the Proposed Statement of Financial Accounting standards is appropriate in its overarching concepts. However, we have some concerns as to the location and authority of the statement.

We believe that the definition of an entity, a reporting entity and the objective of financial statements is best addressed solely in Chapter 1 of the conceptual framework. We feel strongly that the development and review of the conceptual framework should be a priority project for the Board. In addition we strongly support the authority of the framework within the International Financial Reporting Standards, and would support a move by the FASB to elevate the authoritative status of the framework in the future.

For clarification we believe that it would be helpful for the Board to differentiate between an 'entity' and 'reporting entity'.

We feel that the current proposals should also make reference to the interplay between financial reporting standards and local legal requirements. We understand that the Board does not wish to override or disturb local legal requirements and we believe that this should be explicitly stated. In particular we note that current regulatory requirements in the United States legislate for the preparation of financial statements only for listed entities. The current drafting of the framework could lead to the requirement for privately-held companies in the United States to prepare financial statements. We believe that the requirement to produce financial statements should be a matter for local legislation not the IASB.

**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 strongly believe that the definition of control is of central purpose to the preparation of financial statements. We believe that control should have a consistent definition within the financial statements conceptual framework and that this should be utilised across accounting standards and conceptual definitions. For example we note that the current definition of control in IAS27 varies from that proposed in paragraph RE7. Accordingly we are of the opinion that paragraphs RE8-RE12 are not the appropriate location for such a definition.

We would also welcome some consideration of whether or not the framework differentiates between actual control and potential control. Paragraph RE7 states that control occurs when an entity 'has the power to direct the activities of that other entity'. However, paragraph 14 of IAS27 specifically notes that, when examining control and entity should consider 'the existence and effect of potential voting rights'. We would welcome a clarification as to whether or not an entity must consider the potential to control as well as the ability to control.

We are concerned that the current definition would require all entities which control another entity to produce consolidated financial statements, in particular with regard to intermediate holding companies. We do not believe that intermediate holding companies should be required to produce consolidated financial statements and this would not be helpful to or informative to their investors. We urge the Board to consider clarification of this point.

### **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 can qualify as a reporting entity should there be a statutory or other requirement for it to prepare financial statements. We note that the proposals do not indicate when an entity, such as a branch, is required to prepare financial statements, which is appropriate.

### **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 agree. We believe that the understanding and definition of a reporting entity should take precedent over the development of additional standards. Further standards should subsequently be developed with reference to the framework.