

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

response to exposure draft

15 July 2010

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

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International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
Submitted electronically to www.iasb.org
15 July 2010

Dear IASB secretariat

**Exposure Draft ED/2010/2
Conceptual Framework for Financial Reporting
The Reporting Entity**

CIPFA is pleased to present its comments on the proposals in this Exposure Draft, which have been reviewed by CIPFA's Accounting and Auditing Standards Panel.

Application of the IASB framework to other economic sectors

In our response to the Board's 2008 exposure draft on Objectives and Qualitative Characteristics we highlighted the increasing use of International Financial Reporting Standards in government, and we have in several cases noted our concerns over the risks arising from developing significant components of the framework before considering non-profit issues.

The definition of reporting entity is a particular area where different considerations operate for entities which are not business driven. We agree in our answer to Question 2 that consolidated financial statements should be produced by profit focused entities which control other profit focused entities. This is a minimum requirement which is essential to provide a coherent and meaningful report on related activities. As noted in our answer to Question 1, we have some concerns over re-articulations which may make the Framework less readily applicable or interpretable to the operations of not-for-profit entities. We also suggest that, when the Board does at some time in the future consider issues for not-for-profits, it might discuss whether wider categories of relatedness need to be considered as a basis for coherent reporting, particularly for categories of not-for-profit organisation which operate in a coherent and strongly related manner in pursuit of benefits which are measured in terms of e.g. social, environmental or cultural improvements rather than enhanced revenue or avoided loss.

Response to specific questions

Specific comments on the questions for respondents are attached in an Annex.

I hope these comments are a helpful contribution to the development of the Framework.

Yours faithfully
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Responses to Questions for respondents
<p>Question 1</p> <p>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?</p>
<p>CIPFA agrees that the proposed approach works for profit focused entities.</p> <p>The description of a reporting entity is different to that included in the 2008 Discussion Paper, and replaces the term “other capital providers” with “other creditors”. The reference to capital providers had been imported from the Objective chapter and had been an attempt to ensure that the objective of financial reporting applied equally to not-for-profit entities, which do not have investors as their primary users. This replacement may cause problems for not-for-profit entities as it will omit a key category of users of financial statements in the not-for-profit environment.</p>
<p>Question 2</p> <p>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?</p>
<p>CIPFA agrees that if an entity that controls one or more entities prepares financial reports, it should present consolidated financial statements.</p> <p>CIPFA agrees with the definition of control of an entity.</p>
<p>Question 3</p> <p>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?</p>
<p>CIPFA agrees with this approach.</p>

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

CIPFA agrees that completion of the reporting entity concept should not be delayed until consolidation standards have been issued.