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*File Reference No. 1580-100, Preliminary Views, Conceptual Framework for Financial Reporting: The Reporting Entity*

Grant Thornton International and its US member firm, Grant Thornton LLP, appreciate the opportunity to jointly comment on the International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) Preliminary Views, *Conceptual Framework for Financial Reporting: The Reporting Entity* (the Preliminary Views). We support the Boards' efforts to update and enhance the conceptual framework to provide a foundation for developing principles-based and converged standards.

We broadly agree with the Preliminary Views expressed by the Boards, but note that some of the issues raised in the document may be better addressed at the standards level. We do not believe that the conceptual framework should move beyond broad principles to incorporate specific provisions that begin to resemble implementation rules. We also are concerned that the definition of an entity could be improved. We do not believe that it is necessary to incorporate the objective of financial reporting or the potential users of financial statements into the definition of the entity. We also note that there could be semantic issues with the terms “business activity” and “circumscribed” as explained below.

These are our responses to the questions posed in the Preliminary Views.

Section 1: *The reporting entity concept*

**Q1. Do you agree that what constitutes a reporting entity should not be limited to business activities that are structured as legal entities? If not, why?**

Yes. We believe that a reporting entity could be considered as a legal entity, a portion of a legal entity, or a group of legal entities and other activities.

**Q2. Do you agree that the conceptual framework should broadly describe (rather than precisely define) a reporting entity as a circumscribed area of business activity of interest to present and potential equity investors, lenders, and other capital providers? If not, why? For example, do you believe that the conceptual framework should establish a precise definition of a *reporting entity*? If so, how would you define the term? Do you disagree with including reference to equity investors, lenders, and other capital providers in the description (or definition) of a reporting entity? If so, why?**

We do not believe it is feasible or desirable to incorporate a precise definition of the boundaries of an entity in the conceptual framework.

Otherwise we agree with the general concepts presented but we believe that the proposed definition could be improved. We do not believe that it is necessary to incorporate the objective of financial reporting or the potential users of financial statements into the definition of the entity. We also note that there could be semantic issues with the terms “business activity” and “circumscribed”.

If the intent is to define a business activity as something distinct from a business, we are concerned that what comprises a business activity and what is another type of activity (not for profit, government) may be jurisdiction specific. We are not convinced that it is necessary to specify a business activity as opposed to economic activity in the definition of an entity. What happens when a not-for-profit entity controls a business (very common in parts of the world) or a business controls a not-for-profit entity (also common)? We believe the term “economic activity” meets the objective of defining an entity without the need for defining either business or non-business activities.

If the term “business activity” is to be used, we believe the document should clarify whether business activity is intended to be the same concept as a “business” as defined in IFRS 3/FAS 141R? The IASB/FASB definition of a business as an integrated set of assets and activities does not require that a business be a legal entity so it would seem that it could be used in this context as well. If “business activity” is intended to define something less than a business as defined in IFRS 3/FAS 141R we believe that should be clarified as well.

We note in the definition of the entity that the boundaries that circumscribe a set of activities may be a legal entity or something else that is capable of producing an entity that can maintain the records necessary to prepare financial reports. We believe that a better way to express this is to define an entity as a set of economic activities with definable boundaries for financial reporting purposes. One element of those boundaries should be the ability to clearly distinguish the assets and liabilities of the entity.

Finally, we believe that reference to equity investors, lenders and other capital providers should be included in the objectives of financial reporting and any discussion on the primary users of financial statements and not in the definition of an entity.

Section 2: *Group reporting entity*

- Q3. Do you agree that the risks and rewards model does not provide a conceptually robust basis for determining the composition of a group reporting entity and that, except to the extent that it overlaps with the controlling entity model (as discussed in paragraphs 102 and 103), the risks and rewards model should not be considered further in the reporting entity phase of the conceptual framework project? If not, why?**

We agree that risks and rewards may not be sufficient for determining the composition of a group but believe that the definition of control should incorporate risk and reward concepts as part of the consideration of the facts and circumstances indicating control.

- Q4. Assuming that control is used as the basis for determining the composition of a group reporting entity, do you agree that:**

- (a) control should be defined at the conceptual level?**

We agree, but we do not believe that the definition should attempt to be precise enough to foresee all circumstances. The international business environment changes rapidly and new business forms are likely to emerge. A general concept of control should be defined at the conceptual level with the understanding that it may be necessary to provide more specific guidance at the standards level.

- (b) the definition of control should refer to both power and benefits? If not, why? For example, do you have an alternative proposed definition of control?**

We agree.

- Q5. Do you agree that the composition of a group reporting entity should be based on control? If not, why? For example, if you consider that another basis should be used, which basis do you propose and why?**

We agree.

- Q6. Assuming that control is used as the basis for determining the composition of a group reporting entity, do you agree that the controlling entity model should be used as the primary basis for determining the composition of a group entity? If not, why?**

We believe that there should be some flexibility at the conceptual level so that specific issues can be addressed at the standards level. In particular, we believe that the common control model should be used in some circumstances (see our response to Q7 below).

**Q7 Do you agree that the common control model should be used in some circumstances only? If not, why? For example, would you limit the composition of a group reporting entity to the controlling entity model only? Or would you widen the use of the common control model? If you support the use of the common control model, at least in some circumstances, do you regard it as an exception to (or substitute for) the controlling entity model in those circumstances, or is it a distinct approach in its own right? Please provide reasons for your responses.**

We agree that the common control model should be used in some circumstances. We would not limit the composition to the controlling entity model only. We would permit a broad definition of the boundaries of a reporting entity based on the reporting needs of the main users of the financial statements, especially for private companies.

As we read the definition of an entity, we believe that there may be many possible alternatives for defining the boundaries of a reporting entity. We do not see any reason for restricting the definition to the controlling entity model at the conceptual level. Therefore, we believe that common control (and possibly other models) could be used to define a reporting entity. The model to be used may be an issue that should be decided by local jurisdictions, securities exchanges, or the intended users of the financial statements rather than within the definition of an entity at the conceptual level.

### Section 3: *Parent entity financial reporting*

**Q8. Do you agree that consolidated financial statements should be presented from the perspective of the group reporting entity, not from the perspective of the parent company's shareholders? If not, why?**

We believe that both the entity perspective and the parent company perspective provide useful information. We therefore broadly agree with the arguments in paragraph 118 of the Preliminary Views. We note however that information relating to non-controlling interests such as the amount of profit or loss attributable to non-controlling interests is useful to the owners of the non-controlling interests and to the parent company's shareholders and other claimants to the entity's resources. Certain information such as earnings per share from the perspective of the parent entity's shareholders may also be useful to the owners of the controlling interest.

**Q9. Do you agree that consolidated financial statements provide useful information to equity investors, lenders, and other capital providers? If not, why?**

We agree.

**Q10. Do you agree that the conceptual framework should not preclude the presentation of parent-only financial statements, provided that they are included in the same financial report as consolidated financial statements? If not, why?**

We agree that the conceptual framework should not preclude the presentation of parent-only financial statements. However, we do not agree that the conceptual framework should contain a requirement that parent-only financial statements must be included in the same financial report as consolidated financial statements. We believe that such a rule should be made either at the standards level or left to the discretion of the individual jurisdiction or exchange.

Section 4: *Control Issues*

**Q11. With regard to the concept of control, in the context of one entity having control over another, do you agree that:**

**(a) establishing whether control exists involves assessing *all* the *existing* facts and circumstances and, therefore, that there are no single facts or circumstances that evidence that one entity has control over another entity in all cases, nor should any particular fact or circumstances—such as ownership of a majority voting interest—be a necessary condition for control to exist? If not, why?**

We agree. We note however that some circumstances, in particular the ownership of the majority of voting rights, are generally considered to give rise to a very strong presumption of control. We have no strong view on whether such circumstances should be referred to at the conceptual level or should be dealt with at Standards level.

**(b) the concept of control should include situations in which control exists but might be temporary? If not, why?**

We agree but believe that the definition of the concept of control should leave room for interpretation at the standards level.

**(c) the control concept should not be limited to circumstances in which the entity has sufficient voting rights or other legal rights to direct the financing and operating policies of another entity, but rather should be a broad concept that encompasses economically similar circumstances? If not, why?**

We agree that control should be a broad concept at the conceptual level but that there may be limitations at the standards level.

**(d) in the absence of other facts and circumstances, the fact that an entity holds enough options over voting rights that, if and when exercised, would place it in control over another entity is not sufficient, in itself, to establish that the entity currently controls that other entity? If not, why?**

We believe that at the conceptual level the assessment of whether control exists should require assessment of *all* relevant facts and circumstances.

- (e) to satisfy the power element of the definition of control, power must be held by one entity only? In other words, do you agree that the power element is not satisfied if an entity must obtain the agreement of others to direct the financing and operating policies of another entity? If not, why?

We mainly agree but note that the statement 'power must be held by one entity only' might be construed as too narrow. This will depend in part on what is meant by 'one entity'. Because a reporting entity may consist of a group of legal entities, we believe that it should be clear that power held within a group of entities would be considered unilateral power rather than shared power. More clarification may be desirable.

- (f) having "significant influence" over another entity's financing and operating policy decisions is not sufficient to establish the existence of control of that other entity? If not, why?

We agree.

- Q12. Should any of the above control issues be addressed at the standards-level rather than at the concepts level? If so, which issues and why?**

We see potential for addressing all of these issues at the standards level (with the possible exception of the need to assess all the existing facts and circumstances when determining whether control exists).

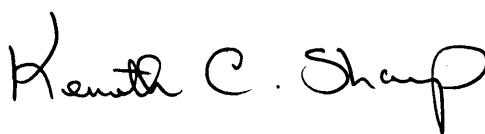
- Q13. Are there any other conceptual issues, relating either to the control concept or to some other aspect of the reporting entity concept, that are not addressed in this Preliminary Views and should be addressed at the conceptual level? If so, which issues and why?**

In addition to the discussion of control, we believe it would be useful to include discussions on joint control and significant influence and the relationship of each to control.

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We would be pleased to discuss our comments and recommendations with Board members or the staff. Please direct your questions or comments to Gary Illiano (Gary.Illiano@gt.com or +1 (212) 542-9830) on behalf of Grant Thornton LLP or Andrew Watchman (Andrew.Watchman@gtuk.com or +44 (0) 207 391 9510 2721) on behalf of Grant Thornton International.

Sincerely,



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