

IASB DISCUSSION PAPER

CONCEPTUAL FRAMEWORK: THE REPORTING ENTITY

A further phase in the IASB/FASB project to develop an improved and converged conceptual framework addresses the nature of the reporting entity. This phase is to develop a conceptual foundation to serve as the basis for resolving issues that arise in standards-level projects or in accounting practices for consolidated financial statements.

The IASB's "Preliminary Views on an Improved Conceptual Framework for Financial Reporting: The Reporting Entity," includes the following key proposals.

The reporting entity concept

- Should be broadly described as a circumscribed area of business activity of interest to present and potential equity investors, lenders and other capital providers.
- Should not be limited to business activities that are structured as legal entities, thus, can include a sole proprietorship, corporation, trust, partnership, association and a group of entities.

Composition of a group entity

- Determine by primarily using the controlling entity model.
- Should be based on control when control over another entity entails both power over that entity and the ability to obtain benefits.
- Determine control by assessing all of the existing facts and circumstances.
- Considers some circumstances in which the common control model may provide useful information to equity investors, lenders and other capital providers. Application of the common control model should (or may) be considered at a standards level.

Parent entity financial reporting

- Present general purpose consolidated financial statements from the perspective of the group reporting entity. However, adopting this approach does not preclude including in financial reports information that is primarily directed to the needs of a particular group of capital providers, such as parent company shareholders.
- Explains how consolidated financial statements meet the objective of financial reporting by providing useful information to equity investors, lenders and other capital providers. However, proposes that the conceptual framework should not preclude the presentation of parent-only financial statements, provided they are included in the same financial report as consolidated financial statements.

The IASB and FASB are requesting comments by September 29, 2008. The IASB Discussion Paper and FASB Preliminary Views are available from their respective websites.

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