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International Accounting Standards Board
30 Cannon Street
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16 July 2010

Re: Exposure Draft *An Improved Conceptual Framework for Financial Reporting: The reporting Entity*

Dear sirs,

We are pleased to have an opportunity to provide our comments on the IASB Exposure Draft *An Improved Conceptual Framework for Financial Reporting: The reporting Entity*.

As already expressed in the past, OIC supports the project to revise the Conceptual Framework. To this regard, we have some concerns with the fact that a specific part of the Conceptual Framework is approved and adopted before having completed the project as whole. Therefore, OIC believes that no part of the Conceptual Framework should be finalised until the whole Framework is ready to be finalised, unless all the implications of the changes being made in the finalised parts of the revised Framework are identified at the exposure draft stage and are reflected in the consequential amendments made at the same time.

Other general concerns refer to the concept of control.

OIC acknowledges that, in some circumstances, risks and rewards should be taken into consideration when determining the consolidation area. The ED does not clarify the role of risk and rewards in the proposed definition of control, and this could create significant difficulties in determining the entities to be consolidated. Our concern is that the notion of control proposed could permit not to consolidate significant risks to which the group is still exposed. In this respect OIC's view is that a clear indication could be provided already in the Framework, at least at conceptual level. In every case, detailed guidance has to be provided in the forthcoming accounting standards. Always with regard to the control notion, we have complained about the elimination of the joint control concept in past consultation, since the elimination of the proportionate consolidation would limit the usefulness of financial information for the participants to the venture. Therefore, we believe that it would be useful to analyse the decision-usefulness in determining the boundaries of the group reporting entity using a joint control approach.

More in general, we believe that a thorough debate about the perspective that should be adopted in preparing financial statements should be useful. The ED does not provide any comment on this topic and, even if it is clear that proprietary perspective is not eligible in general purpose financial reports, it could be worthwhile to develop an analysis on which perspective best depict the information that users of financial statements need. In this respect, the ED – differently from the DP – does not make any reference to the view that should be adopted.

Detailed responses to the ED questions are as follows:

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? If not, why?

We agree with the proposed broad description of a reporting entity. Specifically we appreciate the fact that the definition of reporting entity is based on users' needs. We also recognise that some aspect of the definition could be refined, such as the reference to the notion of "efficient and effective use" or the objective distinction of the economic activities related to the reporting entity.

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? If not, why?

Regarding this question we have expressed our view in the general comments of this letter.

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? If not, why?

We agree that a portion of an entity can qualify as a reporting entity if that portion meets the description and characteristics of a reporting entity. We also believe that a combination of portions of different legal entities can constitute a reporting entity if this combination meets the description and characteristics of a reporting 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 chapter of the Conceptual Framework should not be delayed until those standards have been issued? If not, why?

We agree that the project should not be delayed until the standards on consolidation have been issued but those standards issued in the future must not introduce any fundamental new concepts as they should first be debated at the conceptual level.

If you have any queries concerning our comments, please do not hesitate to contact us.

Yours faithfully,
Angelo Casò
(Chairman)