



Tuesday, July 13, 2010

The International Accounting Standards Board
30 Cannon Street
London, United Kingdom
EC4M 6XH

Re: Exposure Draft ED/2012/2 – Conceptual Framework for Financial Reporting

The Committee on Corporate Reporting of Financial Executives International Canada (FEI Canada) is writing this letter to provide its response to International Accounting Standards Board's (IASB) **Exposure Draft ED/2012/2 – Conceptual Framework for Financial Reporting**.

FEI Canada is the all-industry professional membership association for senior financial executives. With eleven chapters across Canada and more than 2,000 members, FEI Canada provides professional development, thought leadership and advocacy services to its members. The association membership, which consists of Chief Financial Officers, Audit Committee Directors and senior executives in the Finance, Controller, Treasury and Taxation functions, represents a significant number of Canada's leading and most influential corporations.

The Committee on Corporate Reporting (CCR) is one of two national advocacy committees of FEI Canada. CCR comprises more than 30 senior financial executives representing a broad cross section of the FEI Canada membership and of the Canadian economy who have volunteered their time, experience and knowledge to consider and recommend action on a range of issues related to accounting, corporate reporting and disclosure. In addition to advocacy, CCR is devoted to improving the awareness and educational implications of the issues it addresses, and is focused on continually improving the standards and regulations impacting corporate reporting.

While FEI Canada finds the proposal for a conceptual framework for financial reporting commendable and valuable it recognizes the many challenges this effort brings. Conceptual frameworks should underpin the approach to all standard setting when the standards are principles based. It is important to ensure that definitions are exactly the same in the framework and the specific standards to reduce the risk of multiple interpretations of the same concept. It is also important to ensure that a conceptual framework can be applied to public and private enterprises alike. While this issue was not specifically raised in the exposure draft, FEI Canada believes that this is important to ensure conceptual frameworks meet their objective of providing consistency in financial reporting in all arenas.

One of the most important objectives of financial reporting is to ensure that existing and potential equity investors, lenders and other creditors can make decisions about providing resources to an entity and assess whether management and the governing board of that entity have made efficient and effective use of the resources provided. It is important for the standard setters to recognize that there are other mechanisms for ensuring that the users have the information required to make those decisions. The world capital markets and securities regulators also play a role in ensuring entities provide appropriate information and oversight to meet the needs of decision makers.

Our detailed responses to the questions raised in the ED are set forth as laid out in the ED:

Question No 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 information they need in making decisions about providing resources to an 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 not?

We do not 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. The definition as proposed in the exposure draft leaves open the possibility that a reporting segment or division of a business can be determined as a reporting entity. This ambiguity could result in organizations being required to prepare financial statements for areas of economic activities without regard to how management and the governing board of the organization make use of resources, allocate capital and manage risks for organizations that may have several areas of economic activities.

We consider the rationale as presented herein – “cannot directly obtain information they need in making decisions about providing resources to an entity and in assessing whether the management and the governing board of that entity have made efficient and effective use of the resources provided” may result in unintended reporting obligations in cases where an entity may not be relying on capital markets. As members of the financial community, we believe that investors are able to obtain the information required to meet its objectives without accounting standards or a conceptual framework that impose reporting requirements where the associated costs could exceed the benefits. Reliance on capital market efficiencies and securities regulators provide adequate obligations for entities relying on capital markets for their funding as well as providing the appropriate information to allow those providing resources to an entity to assess how those resources are being utilized.

Question No 2

Do you agree that if an entity that controls one or more entities prepares financial reports, it should present consolidated financial statements? If not, why not?

The requirement in the framework for consolidated financial statements is similar to that in IAS 27 but IAS 27 paragraph 10 provides exemption to this obligation in certain circumstances. Accordingly, we disagree that if an entity that controls one or more entities prepares financial reports it should present consolidated financial statements when certain conditions laid out in IAS 27 paragraph 10 are met. Specifically where 1) the parent is itself a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements (IAS 27 paragraph 10.a); and 2) the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with International Financial Reporting Standards (IAS 27 paragraph 10.d).

Do you agree with the definition of control of an entity?

If not, why not?

The definition as presented in the Conceptual Framework is a reasonable definition. However, the definition is similar to the definition which already exists under IAS 27 – control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. We believe that inconsistent definitions between the Conceptual Framework and specific standards leaves either or both open to interpretation.

We recommend that the definition of control be established within the Conceptual Framework and be excluded from specific standards or if included in specific standards be precisely the same as defined in the Conceptual Framework. Establishing control is one of the cornerstones of financial reporting and thus should be given careful consideration as to the appropriate definition embedded in individual standards or defined as a concept.

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 decision about providing resources to that portion of the entity?

We are of the opinion that preparing financial statements for a portion of an entity, unless that portion of an entity is itself a legal entity, is impractical. Furthermore, a portion of an entity may qualify as operating segment under IFRS 8 and, as such, financial information of that portion would be disclosed for the decision makers.

Similar to the issue addressed in Question 1 we believe that by including this definition in the Conceptual Framework, the standards setters may be imposing financial reporting requirements for which the costs would far exceed the benefits. In the case where information is useful in making decision about providing resources to that portion of the entity, we believe that information required by potential investors be left up to the capital market participants to evaluate reporting required to make their investment decisions as opposed to a Conceptual Framework that could result in the unintended consequence of financial reporting obligations placing undue burden on financial statement preparers.

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? If not, why not?

We believe that completion of the reporting entity concept should be delayed until those standards have been issued. To clarify, we believe that unless the specific standards can incorporate the precise definitions established in the Conceptual Framework there is a significant risk that variations in definitions between the Conceptual Framework and the specific standards leave preparers with the ability to interpret the definitions differently.

As recommended in Question 2 – the definitions which are fundamental to standards on consolidation should be established within the Conceptual Framework and be excluded from specific standards or if included in specific standards be precisely the same as defined in the Conceptual Framework. Given the cost of ambiguity on the application of accounting standards it



is imperative that the standards and the definitions in the Conceptual Framework be completely aligned. We believe that the cost of inadvertent disconnects between specific standards and the Conceptual Framework far out weigh the benefit of issuing a Conceptual Framework before the specific standard.

We appreciate your consideration of the comments made in this letter and welcome the opportunity to further discuss any and all matters related to this ED.

Yours very truly,

A handwritten signature in black ink, appearing to read "Tyrone Cote". The signature is written in a cursive style.

Tyrone Cote
Chair
Committee on Corporate Reporting
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