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30 September 2008

International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH

Submitted via the "Open to Comment" page on the IASB website

Dear Sirs

**IASB DP - Preliminary Views on an improved Conceptual Framework  
for Financial Reporting: The Reporting Entity**

I am writing on behalf of LIBA (the London Investment Banking Association) to comment on the IASB Discussion Paper – Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Reporting Entity ("the DP"), which was published on 29 May. LIBA is, as you know, the principal UK trade association for investment banks and securities houses; a list of our members is attached.

We welcome the opportunity to contribute to this topic, which addresses an area of considerable interest to our members. The members of the LIBA Accounting Committee have wide experience of dealing with many aspects of the closely related topics of consolidation and derecognition, under both US GAAP and IFRS, and we believe we are therefore particularly well qualified to comment on this DP.

Overall we agree with the proposals in the DP, including in particular the use of the controlling entity model to define the composition of a reporting entity. We are however concerned that the DP proposals are being developed concurrently with the new standards on Consolidation and Derecognition. The DP proposals should therefore be revisited once these revised standards are finalised to ensure that they are fully consistent with the new standards.

Our responses to the "questions for respondents" set out in the text of the Discussion Paper are set out below. Please note that we have not responded to all of the questions.

**Section 1: The reporting entity concept**

**Question 1**

*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?*

We agree that a reporting entity should not be limited to business activities that are structured as legal entities. We deal with many circumstances where “entities” are structured outside of legal/corporate structures and consider that, at least at the conceptual framework level, reporting of those activities should not be based solely on legal construction.

## **Question 2**

*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?*

The majority of our members operate through global corporate groups and the concept of a reporting entity is therefore fundamental to our business. We therefore consider that a definition (albeit broad) should be included in the Framework so as to crystallise what the Board considers to be a reporting entity and its purpose. Given the perceived lack of clarity on this point in current IFRS, we believe that this is a necessary step.

## **Section 2: Group reporting entity**

### **Question 3**

*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 the risks and rewards model does not provide a conceptually robust basis for determining the composition of a group reporting entity.

### **Question 4**

*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?*

*(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?*

Although we agree that control should be defined at a conceptual level, we consider that this definition should be high level, and should be applied equally to the notion of a reporting entity and to the definition of an asset. We consider that many control issues addressed by the DP (temporary control, potential voting rights, etc) would be more appropriately dealt with in the appropriate IFRS.

Furthermore, this definition of control must be compatible with standards on consolidation and derecognition. We therefore urge the IASB to consider the definition of control in the context of this DP as an integral part of the work on derecognition of financial assets, which is to be reviewed later this year, and on consolidation, where an Exposure Draft is currently being drafted.

### **Question 5**

*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 that the composition of a group reporting entity should be based on control.

### **Question 6**

*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 agree that the controlling entity model should be the primary basis upon which an entity defines its reporting entity group. We consider this model to be superior to an approach which determines the boundary of a reporting entity by the extent of its control over assets, since it respects the nature of a legal entity as well as being consistent with the view that entities should only report assets which are under their control.

### **Question 7**

*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.*

As stated above, we agree with the IASB's tentative decision that the controlling entity model is more consistent with the objective of financial reporting and therefore should be the primary basis for determining the composition of a group for reporting purposes (see Paragraph 95). However we would caution against allowing the broad application of the common control model except in limited circumstances. We consider that the common control model would not be relevant where the controlling entity model has already been applied – e.g. for a consolidated group of companies: we believe that segment reporting is the more appropriate mechanism for financial reporting/disclosures of groups and/or of businesses managed through entities under common control.

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

### **Question 10**

*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 ask the IASB to consider the implications of requiring a parent entity to always present consolidated financial statements (see Paragraph 137) within the context of an intermediate parent company, and suggest the Framework (or the appropriate IFRS) should clearly define what is meant by a parent entity in all circumstances.

Further, although we agree that consolidated financial statements provide useful information, we refer to the preliminary IASB view that consolidated financial statements are consistent with the objective of general purpose financial reporting and that a parent entity should always present consolidated financial statements (see Paragraphs 136-137). Although we understand this view, we are unclear as to its implications for the definition of elements of financial statements (such as functional currency and equity) that drive off a stand-alone entity concept.

**Section 4: Control issues**

**Question 12**

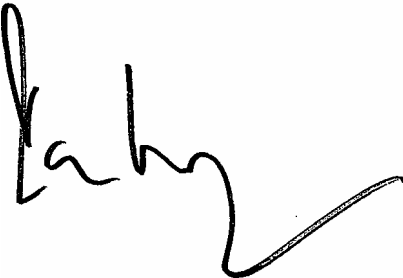
*Should any of the above control issues be addressed at the standards-level rather than at the concepts level? If so, which issues and why?*

Most of the control issues addressed by the DP (e.g. temporary control and potential voting rights) should be dealt with at the standard level. The Framework should include a single, yet robust, definition of control (which must be broad enough to cover SPEs, etc).

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I hope that the above comments are helpful. We would of course be very pleased to expand on any particular points if there are aspects which you find unclear, or where you would like further details of our views.

Yours sincerely



**Ian Harrison**  
**Director**

# LONDON INVESTMENT BANKING ASSOCIATION

## LIST OF MEMBERS

ABN AMRO Bank	HBOS Treasury Services plc
Altium Capital Limited	HSBC Bank plc
Arbuthnot Latham & Co., Limited	ING Bank NV London Branch
Arbuthnot Securities Limited	Instinet Europe Ltd
Arden Partners plc	Investec plc
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BNP Paribas	Kaupthing Singer & Friedlander
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Calyon	Libertas Capital Group plc
Cantor Fitzgerald Europe	Merrill Lynch Europe PLC
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Collins Stewart Limited	N M Rothschild & Sons Limited
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