STAFF PAPER

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Project	**Conceptual Framework**
Paper topic	The reporting entity

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Purpose and structure of paper

1. This paper discusses whether any changes are needed to the discussion about the reporting entity in the light of the comments received on Chapter 3—*Financial statements and the reporting entity* of the Exposure Draft *Conceptual Framework for Financial Reporting* (the Exposure Draft). In particular, this paper provides background on and discusses:

    (a) the description of the reporting entity (paragraphs 6–15);

    (b) the boundary of the reporting entity (paragraphs 16–27);

    (c) direct and indirect control (paragraphs 28–37); and

    (d) consolidated and unconsolidated financial statements (paragraphs 38–47).

2. This paper also provides background on and discusses:

    (a) the going concern assumption (paragraphs 48–52); and

    (b) the perspective from which financial statements are prepared (paragraphs 53–60).

3. The appendix sets out other comments received on paragraphs 3.9–3.25 of the Exposure Draft and provides staff responses to those comments.

4. Paragraphs 3.2–3.8 of the Exposure Draft discuss the role of financial statements including their objective. Agenda Paper 10C—*Presentation and disclosure* discusses the objective of financial statements.

Summary of staff recommendations

5. In summary, the staff recommend to confirm:
   (a) the proposed description of a reporting entity as an entity that chooses, or is required, to prepare general purpose financial statements as set out in paragraphs 3.11–3.12 of the Exposure Draft;
   (b) the proposed concepts on the boundary of the reporting entity as set out in paragraphs 3.13–3.18 of the Exposure Draft;
   (c) the proposed concepts of 'direct' and 'indirect' control as set out in paragraphs 3.19–3.22 of the Exposure Draft but to clarify those concepts in the Basis for Conclusions on the *Conceptual Framework*;
   (d) the statement in paragraph 3.23 of the Exposure Draft that in general consolidated financial statements are more likely to provide useful information to users of financial statements than unconsolidated financial statements;
   (e) the statement in paragraphs 3.24 of the Exposure Draft that consolidated financial statements of the parent are not intended to provide information to users of the subsidiary's financial statements;
   (f) the statement in paragraph 3.25 of the Exposure Draft that an entity may choose, or be required, to present unconsolidated financial statements but to delete the statement that such an entity needs to disclose in unconsolidated financial statements how users may obtain its consolidated financial statements;
   (g) the proposed going concern assumption as set out in paragraph 3.10 of the Exposure Draft; and

(h) that the perspective from which financial statements are prepared is the perspective of the entity as a whole as set out in paragraphs 3.9 of the Exposure Draft.

Description of the reporting entity

Exposure Draft proposals

6. The Exposure Draft describes a reporting entity as an entity that chooses, or is required, to prepare general purpose financial statements. Further, it states that a reporting entity does not have to be a legal entity and can comprise only a portion of an entity, or two or more entities.

7. In developing the proposals in the Exposure Draft, the Board noted that it has no authority to determine who must or should prepare general purpose financial statements and, hence, decided to provide a general description of a reporting entity rather than state who must or should prepare general purpose financial statements.

Summary of feedback

8. The invitation to comment on the Exposure Draft asked respondents whether they agreed with the proposed description of the reporting entity. Approximately half of the respondents commented on that matter.

9. Many supported the Board's proposal to describe a reporting entity as an entity that chooses, or is required, to prepare general purpose financial statements.

10. A few respondents expressed concerns that the proposed description of a reporting entity is too broad. For example, the European Accounting Association (EAA) stated that the proposed description of a reporting entity would allow for financial statements to be prepared for any collection of assets and liabilities if preparers deem those financial statements to be useful to investors and to faithfully represent what they purport to represent. Those respondents asked for a narrower definition of a reporting entity.

11. Some respondents, mainly standard-setters and accounting firms, suggested that the description of a reporting entity could be improved if the *Conceptual Framework* included material from the 2010 Exposure Draft *Conceptual Framework for Financial Reporting—The Reporting Entity* (the Reporting Entity Exposure Draft) that described some key features of a reporting entity.

12. Some respondents asked the Board to provide more guidance on how to set the boundary of a reporting entity that comprises only a portion of an entity or two or more entities that do not have a parent-subsidiary relationship. These comments and the staff's proposed response are discussed in paragraphs 16–27.

Staff analysis and recommendation

13. The staff have considered whether the description of a reporting entity could be improved by including the material from the Reporting Entity Exposure Draft as suggested by some respondents. That Exposure Draft describes a reporting entity as 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. It further sets out three features of a reporting entity that are necessary but not always sufficient to identify a reporting entity:

    (a) economic activities are being conducted, have been conducted or will be conducted;

    (b) those economic activities can be objectively distinguished from those of other entities and from the economic environment; and

    (c) financial information about those economic activities of that entity has the potential to be useful in making decisions about providing resources to the entity and in assessing whether management and the governing board have made efficient and effective use of the resources provided.

14. However:

    (a) paragraph 3.18 of the Exposure Draft already incorporates the notion that the financial information provided about a reporting entity that is not a legal entity must be useful to users of financial statements that is, the information must be:

(i) relevant to the users of financial statements; and

(ii) faithfully represent the economic activities of the entity;

(b) the financial statements of an entity that has never conducted and will never conduct economic activities are unlikely to provide useful information to users of financial statements; and

(c) some respondents to the Reporting Entity Exposure Draft expressed concerns that the terms 'circumscribed area' and 'objectively distinguished' were vague and unclear. The staff agree with those respondents and think that including these terms in the description of the reporting entity would not provide clearer guidance on what constitutes an entity.

15. Accordingly, the staff do not recommend including the material from the Reporting Entity Exposure Draft in the *Conceptual Framework.* Instead, we recommend that the Board confirm the proposed description of a reporting entity.

Question 1
Do you agree with the staff recommendation that consistent with the proposals in Exposure Draft the *Conceptual Framework* should describe a reporting entity as an entity that chooses, or is required, to prepare general purpose financial statements?

Boundary of the reporting entity

Exposure Draft proposals

16. The Exposure Draft states that financial statements provide information about the assets, liabilities, equity, income and expenses generated by the set of economic activities that lie within the boundary of the reporting entity. It further states that for financial statements to give a faithful representation of the economic activities of the reporting entity, they need to describe the set of economic activities included within the reporting entity.

17. If a reporting entity is not a legal entity, the Exposure Draft states that the boundary of the reporting entity needs to be set in such a way that the financial statements:

    (a) provide the relevant financial information needed by those existing and potential investors, lenders and other creditors who rely on the financial statements; and

    (b) faithfully represent the economic activities of the entity.

18. The Exposure Draft further states that financial statements are sometimes prepared for two or more entities that do not have a parent-subsidiary relationship and refers to such financial statements as combined financial statements.

Summary of feedback

19. Approximately half of the respondents to the Exposure Draft commented on the discussion of the boundary of a reporting entity.

20. Although more than half of those respondents supported the discussion of the boundary of a reporting entity, most of those respondents requested more guidance on how to identify that boundary. In particular, they asked the Board to clarify:

    (a) how to identify the boundary of a reporting entity that comprises a portion of an entity, or two or more entities that do not have a parent-subsidiary relationship with each other; and

    (b) whether and when so-called carve-out financial statements prepared for a portion of an entity and combined financial statements prepared for two or more entities that do not have a parent-subsidiary relationship with each other can be considered:

        (i) general purpose financial statements; and

        (ii) to comply with IFRS.

Staff analysis and recommendation

21. Some respondents have asked the Board to clarify how to set the boundary of an entity that could publish IFRS compliant general purpose financial statements in cases when such a reporting entity:

(a) is only a portion of an entity; or

(b) comprises two or more entities that do not have a parent-subsidiary relationship.

22. The Board already considered such requests in deliberating the Exposure Draft. Specifically, during the balloting process, some commentators expressed concerns that the proposal that the financial statements should describe the set of economic activities included within the reporting entity would not sufficiently restrict which entities can be a reporting entity. In particular, they were concerned that a reporting entity that comprises a portion of an entity could choose to report on an incomplete set of economic activities. For example, a reporting entity could exclude its share of overheads from its financial statements as long as it describes the set of economic activities that have been included in the financial statements. In addition, there may be difficulties in identifying the claims that should be included in a set of financial statements if the reporting entity is a portion of an entity.

23. In response to the above comments, the Board considered proposing that a reporting entity must report a *complete* set of economic activities. However, the Board noted that without explaining what a complete set of economic activities means, including such a concept in the *Conceptual Framework* would not provide better guidance on determining the boundaries of a reporting entity. Accordingly, the Board did not propose that a reporting entity must report on a complete set of economic activities.

24. Instead, the Board decided to propose additional guidance to clarify that for a reporting entity that is not a legal entity, the boundary needs to be set in such a way that the financial statements:

(a) provide relevant financial information needed by those existing and potential investors, lenders and other creditors who rely on the financial statements; and

(b) faithfully represent the economic activities of the entity.

25. The staff note the concern that the notion of an 'entity' is too broad and that financial statements could be prepared for any collection of assets and liabilities. However, the staff are of the view that the concepts proposed in the Exposure Draft place appropriate limitations as to what may constitute a reporting entity. The staff do not

agree that the proposed guidance on the boundary of the reporting entity would allow financial statements to be prepared for any collection of assets and liabilities or for an incomplete set of economic activities. This is because the proposed concepts already:

(a) refer to a set of economic activities that generate assets, liabilities, equity, income and expenses;

(b) set out the need for financial statements to describe that set of economic activities; and

(c) require the boundary of the reporting entity to be set in way that the financial statements:

  (i) provide relevant information to investors, lenders and other creditors; and

  (ii) faithfully represent what they purport to represent.

26. Accordingly, the staff recommend that the Board confirms the proposed concepts on the boundary of the reporting entity set out in paragraphs 3.13 and 3.16–3.18 of the Exposure Draft and reproduced in paragraphs 16–18. The staff think that financial statements prepared for a collection of assets and liabilities that are not bound together by a set of economic activities would not provide relevant information to users of financial statements and would not faithfully represent what they purport to represent and would therefore not be in compliance with the proposed concepts.

27. Further, the staff think it is beyond the scope of the *Conceptual Framework* to discuss when carve-out or combined financial statements could be considered IFRS compliant general purpose financial statements. The staff think that it will depend on facts and circumstances and that the concepts on the boundary of the reporting entity included in the *Conceptual Framework* will assist interested parties in making that judgement.

Question 2
Do you agree with the staff recommendation in paragraphs 26–27 to confirm the proposed concepts on the boundary of the reporting entity?

Direct and indirect control

Exposure Draft proposals

28. The Exposure Draft proposes that when one entity (the parent) has control over another entity (the subsidiary), the boundary of the reporting entity can be determined by either direct control only (resulting in unconsolidated financial statements) or by direct and indirect control (resulting in consolidated financial statements).

29. In unconsolidated financial statements the parent reports only on the economic resources it controls directly and the direct claims against the parent whereas in consolidated financial statements the reporting entity reports on the economic resources that the parent controls directly and indirectly (by controlling its subsidiaries) and the direct and indirect claims against the parent.

Summary of feedback

30. Some respondents, mainly standard-setters and academics, stated that they agree with the proposal to consider control in determining the boundaries of a reporting entity. A few of those respondents noted that the proposal was consistent with IFRS 10 *Consolidated Financial Statements*.

31. However, some respondents expressed concerns about the use of the terms ‘direct control’ and ‘indirect control’, noting that these terms are not used in IFRS 10. Some also argued that the way those terms are used in the Exposure Draft is different to how the terms are normally used and that in their view this could create confusion. Those respondents asked the Board to clarify these terms.

32. For example, the European Securities and Markets Authority stated that the term ‘direct control’ is typically used to refer to the relationship between a subsidiary and its immediate parent and the term ‘indirect control’ is typically used to refer to a

relationship between a subsidiary that is controlled by the ultimate parent via an intermediate parent company.

Staff analysis and recommendation

33. The staff acknowledge the concerns raised by some respondents about the use of the terms ‘direct’ and ‘indirect control’. However, those respondents did not seem to object to the underlying concepts. Instead, their concerns related to the confusion that could arise from using the proposed terminology.

34. The staff think that it is important and appropriate to retain the concepts underlying the notions of ‘direct’ and ‘indirect’ control in the Exposure Draft because those concepts are consistent with the requirement in IFRS 10 to prepare consolidated financial statements. IFRS 10 requires a parent to report on:

    (a) economic resources that are controlled both directly by the parent and indirectly via its subsidiaries; and

    (b) both direct and indirect claims.

35. However, to address the feedback received, the staff think that the concepts of ‘direct’ and ‘indirect’ control could be better explained in the Basis for Conclusions for the *Conceptual Framework*. Specifically, the Basis for Conclusions could emphasise that those notions do not relate to ‘direct’ vs ‘indirect’ (ie via another intermediate entity) control over a *subsidiary*. Rather, they relate to control over *economic resources* and obligations for the related *claims*.

36. The Basis for Conclusions on the *Conceptual Framework* could also state, that under the ‘direct control only’ approach, the entity does *not* look through the legal shells of the entities that it controls. That approach results in unconsolidated financial statements where the parent entity only reports on the economic resources that it controls directly (including its investments in subsidiaries) and direct claims. In contrast, under the ‘both direct and indirect control’ approach, an entity *does* look through the legal shells of the entities that it controls and reflects the underlying economic resources and related claims. That approach results in consolidated financial statements where the parent entity reports on the economic resources it

controls both directly and indirectly (ie via its subsidiaries) and both direct and indirect claims.

37. The staff think that such additional clarifications in the Basis for Conclusions would assist in clarifying any confusion and addressing the comments received on the Exposure Draft.

Question 3
Do you agree with the staff recommendation to confirm the proposed concepts of ‘direct’ and ‘indirect’ control and clarify those concepts in the Basis for Conclusions on the *Conceptual Framework* as discussed in paragraphs 34–36?

Consolidated and unconsolidated financial statements

Exposure Draft proposals

38. The Exposure Draft states that:

(a) in general, consolidated financial statements are more likely to provide useful information to users of financial statements than unconsolidated financial statements;

(b) consolidated financial statements of the parent entity are not intended to provide information to users of the subsidiary’s financial statements; and

(c) if an entity chooses, or is required, to prepare unconsolidated financial statements, it would need to disclose how users may obtain the consolidated financial statements.

Summary of feedback

39. Many of those who commented on this topic disagreed with the statement that consolidated financial statements are more likely to provide useful information than unconsolidated financial statements. They argued that the usefulness of financial statements depends on the user’s needs and that consolidated and unconsolidated financial statements are generally prepared to serve different purposes. Hence, they suggested deleting that statement.

40. Some respondents disagreed with the statement that consolidated financial statements of the parent are not intended to provide information to users of a subsidiary's financial statements and asked the Board to delete that statement. Reasons for that included:

    (a) both the financial statements of a subsidiary and the consolidated financial statements of the parent are crucial to developing an adequate assessment of the risks associated with that subsidiary; and

    (b) the consolidated financial statements can provide important contextual information to users of the subsidiary's financial statements.

41. In addition, two standard-setters expressed the view that such guidance is too detailed for a *Conceptual Framework*.

42. Some respondents commented on and welcomed the statement that an entity can choose, or be required, to prepare unconsolidated financial statements in addition to its consolidated statements. However, many of those respondents expressed the view that the statement that an entity that prepares unconsolidated financial statements should disclose how its consolidated financial statements can be obtained does not belong in the *Conceptual Framework* but is, instead, a Standards-level issue.

43. A few respondents questioned whether financial statements that only report on directly controlled economic resources and direct claims (ie unconsolidated financial statements) could be viewed as a valid set of financial statements.

Staff analysis and recommendation

44. The staff acknowledge the concerns expressed by some respondents about the statement that consolidated financial statements are more likely to provide useful information than unconsolidated financial statements. We also agree with their argument that the usefulness of financial statements depends on the user's view and that unconsolidated financial statements might still provide useful information to particular groups of users.

45. However, we think that those arguments are already reflected in the Exposure Draft. The Exposure Draft acknowledges that unconsolidated financial statements have a

role to play and states that consolidated financial statements are *generally more likely to* provide useful information to users of financial statements that would include existing and potential investors, lenders and other creditors than unconsolidated financial statements. We think it is appropriate for the *Conceptual Framework* to establish that as a principle and therefore recommend retaining that statement.

46. We further acknowledge the concerns expressed by some respondents about the statement that consolidated financial statements are not intended to provide information to users of the subsidiary's financial statements. We agree that consolidated financial statements *can* provide important contextual information for the users of the subsidiary's financial statements. However, consolidated financial statements are not *designed* to provide information about the subsidiary's resources and the claims against the subsidiary to users of the subsidiary's financial statements. While it can be argued that the proposed guidance is stating the obvious, we think that the proposed guidance is essential because it specifies the intended users of consolidated financial statements. Accordingly, we recommend retaining that statement.

47. We acknowledge the concerns expressed by some respondents about including in the *Conceptual Framework* the statement that an entity that prepares unconsolidated financial statements should disclose how users may obtain consolidated financial statements. We agree that such a requirement would be better placed at the Standards-level and does not belong to the *Conceptual Framework*. Therefore, we recommend, in the light of the feedback received:

    (a) retaining the statement that an entity may choose, or be required to prepare unconsolidated statements in addition to consolidated financial statements; but

    (b) deleting the statement that entities that prepare unconsolidated financial statements should disclose how users can obtain the consolidated financial statements.

Question 4

Do you agree with the staff recommendations:

a) to retain the statement in paragraph 3.23 of the Exposure Draft that in general consolidated financial statements are more likely to provide useful information to users of financial statements than unconsolidated financial statements;

b) to retain the statement in paragraphs 3.24 of the Exposure Draft that consolidated financial statements of the parent are not intended to provide information to users of the subsidiary's financial statements; and

c) to retain the statement in paragraph 3.25 of the Exposure Draft that an entity may choose, or be required, to present unconsolidated financial statements but to delete the statement that such an entity needs to disclose in unconsolidated financial statements how users may obtain its consolidated financial statements?

Going concern assumption

Exposure Draft proposals

48. The Exposure Draft brought forward the going concern assumption largely unchanged from the existing *Conceptual Framework*. The Board only suggested an editorial change to align the wording in the Exposure Draft to both IAS 1 *Presentation of Financial Statements* and IAS 10 *Events after the Reporting Period* that use 'cease trading' instead of 'curtail materially the scale of its operations'. Consequently, the Board did not ask a specific question on the going concern assumption which the Exposure Draft describes as follows:

> 3.10 This [draft] *Conceptual Framework* is based on the assumption that the reporting entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or cease trading. If such an intention or need exists, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed in the financial statements.

Summary of feedback, staff analysis and recommendation

49. Some respondents commented on the going concern assumption, most of them agreeing with the proposal. The staff note that the going concern assumption was brought forward from the existing *Conceptual Framework* largely unchanged and it has worked well in the past. Therefore, the staff do not see a need for changes to the description of the going concern assumption.

50. However, a few respondents who supported the proposed description asked the Board to provide more guidance for cases in which the entity is no longer a going concern. In particular, they asked the Board to clarify the terms ‘different basis’ and ‘foreseeable future’.

51. The staff think that including guidance on what is meant by ‘foreseeable future’ or what would constitute a ‘different basis’ of preparation is too detailed for the *Conceptual Framework* and would be better placed at Standards-level.

52. Accordingly, we do not see the need for further clarification of the going concern assumption in the *Conceptual Framework*.

Question 5
Do you agree with the staff recommendation to confirm the proposed going concern assumption as set out in paragraph 48?

The perspective from which financial statements are prepared

Exposure Draft proposals

53. The Exposure Draft states that financial statements are prepared from the perspective of the entity as a whole instead of from the perspective of any particular group of investors, lenders or other creditors.

54. The Basis for Conclusions on the Exposure Draft noted that this statement is consistent with the Basis for Conclusions on the existing *Conceptual Framework*. Specifically, paragraph BC1.8 of the existing *Conceptual Framework* states that financial statements should reflect that entities typically have legal substance separate

from its owners by virtue of their legal form of organisation, numerous investors with limited legal liability and professional managers separate from the owners.

Summary of feedback

55. Some respondents commented on the statement about the perspective from which the entity prepares its financial statements. Some of them supported the proposed approach and some disagreed. Many of those who commented asked for additional explanation of why the Board has adopted the 'entity perspective' and not the 'proprietary perspective' in the *Conceptual Framework*.[1]

56. Some respondents asked the Board to consider the implications of the proposed approach for future and existing Standards. For example, one respondent (ACTEO) stated the post-implementation review of IFRS 3 *Business Combinations* highlighted that many users of financial statements perceive accounting for step acquisitions and changes in ownership interests that do not result in a change of control as counter-intuitive. Another respondent (Singapore Management University) stated that the proposed approach is inconsistent with the option to recognise goodwill from the parent's perspective under IFRS 3.

Staff analysis and recommendation

57. The staff continue to think that it is appropriate for the *Conceptual Framework* to specify that financial statements are prepared from the entity's perspective. This is because adopting the entity's perspective is consistent with:

    (a) the fact that the majority of today's entities are separate and distinct from their capital providers;

    (b) the objective of general purpose financial reporting set out in the *Conceptual Framework* which is to provide useful information to existing and potential investors, lenders and other creditors rather than provide information to a particular class of capital provides; and

[1] Those approaches were discussed in the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting*. Under the proprietary perspective, no distinction is drawn between the entity and its owners—the entity does not exist separately from its owners.

(c) the description of the primary users in the *Conceptual Framework* that include existing and potential investors, lenders and other creditors.

58. Accordingly, the staff recommend confirming in the *Conceptual Framework* the perspective from which financial statements are prepared as the perspective of the entity rather than the perspective of a specific class (or classes) of primary users.

59. The staff note requests to provide additional explanations as to why the Board has adopted the entity perspective in the *Conceptual Framework*. We think that including the discussion in paragraph 57 in the Basis for Conclusions would respond to those requests.

60. The staff also note requests to consider the implications of the entity perspective for future and existing Standards. The Board discussed its approach to analysing the effects of the *Conceptual Framework* at the April 2016 meeting and directed the staff to analyse any additional inconsistencies between the *Conceptual Framework* and existing Standards that have been identified by respondents. The staff will provide such an analysis at a future meeting. In addition, the Board decided not to perform comprehensive analysis of the effects of the *Conceptual Framework* on future Standards except for the effects that the proposed definitions of assets and liabilities—and the concepts supporting those definitions—could have on future Standards.

Question 6

Do you agree with the staff recommendation set out in paragraph 58 to confirm in the *Conceptual Framework* that the perspective from which financial statements are prepared is the perspective of the entity as a whole?

Appendix – Other comments on Chapter 3—*Financial statements and the reporting entity*

A1. This appendix sets out other comments received on the proposed concepts on the reporting entity in the Exposure Draft and our proposed response.

	Respondent comment or suggestion	Staff response
A1	The *Conceptual Framework* should identify the type of entity the Board has in mind when developing IFRS Standards (for example, for-profit-entities).	IFRS Standards are developed to help entities provide useful information to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity. This does not apply solely to one particular type of entity.
A2	The description of a reporting entity is circular as it refers to 'general purpose financial statements' whose objective in turn refers to reporting entities.	The staff do not agree that the description of a reporting entity is circular. Instead, the staff think that the objective of general purpose financial statements and the description of a reporting entity are consistent.
A3	The *Conceptual Framework* should provide a better explanation of why the boundary of a reporting entity is based on control.	The boundary of a reporting entity is based on control because the entity reports on economic resources (assets) that it controls. The definition of an asset is in turn defined by reference to control.
A4	Control should not be used to define the boundaries of a reporting entity as there may be situations when, to provide useful information to users of financial statements, the reporting entity should include entities that are not controlled by the parent entity. The discussion on the boundary of a reporting entity should be developed further before adding a section on this topic to the *Conceptual Framework*.	The boundary of a reporting entity is based on control because the entity reports on economic resources (assets) that it controls. The definition of an asset is in turn defined by reference to control. The Exposure Draft already acknowledges that financial statements could be prepared for entities that do not have a parent-subsidiary relationship (combined financial statements).
A5	There is no need for guidance on the boundary of a reporting entity in the *Conceptual Framework* because in most	One purpose of the *Conceptual Framework* is to help the Board in setting future IFRS Standards. These Standards are not

	Respondent comment or suggestion	Staff response
	jurisdictions the preparation of consolidated financial statements is required by local commercial law.	determined by local laws and requirements. Instead, they set out principles that can be applied by any reporting entity in any jurisdiction.
A6	The *Conceptual Framework* should include some of the material on combined financial statements that was included in the Reporting Entity Exposure Draft.	Providing more guidance on how to set boundaries for a specific type of company is too detailed for the *Conceptual Framework* and is Standard-level guidance.
A7	The *Conceptual Framework* should describe situations in which combined financial statements might provide more useful information than consolidated financial statements.	The situations in which combined financial statements might provide useful information would be best discussed at a Standards-level.
A8	In the absence of a definition of ‘consolidated’, the interaction between the *Conceptual Framework* and Standards appeared circular—if you have control then consolidate, and consolidate if you have control.	The Exposure Draft explains that consolidated financial statements are based on the notion of both direct and indirect control. Definitions of specific terms are Standards-level, in this case, IFRS 10 provides a definition of consolidated financial statements.
A9	The *Conceptual Framework* should discuss terms such as significant influence, joint control, and joint operations.	Significant influence, joint control and joint operations are Standards-level topics and are already addressed in Standards (IAS 28—*Investments in Associates and Joint Ventures* and IFRS 11—*Joint Arrangements*).
A10	There is an inconsistency between the language used in the Exposure Draft and in IAS 27 *Separate Financial Statements*. IAS 27 uses the term ‘separate financial statements’, whereas the Exposure Draft refers to ‘unconsolidated financial statements’.	The Basis for Conclusion on the Exposure Draft clarifies why the Exposure Draft uses the term ‘unconsolidated financial statements’ instead of the term ‘separate financial statements’, which is defined in IAS 27 to cover specific circumstances.
A11	IAS 27 applies to more types of financial statements than the Exposure Draft explicitly mentions (for example, the financial statements of an entity that does not have a subsidiary but has an investment that is accounted for under the equity	Whether the financial statements of an entity that does not have a subsidiary but has an investment that is accounted for under the equity method are unconsolidated financial statements is a Standards-level

Respondent comment or suggestion	Staff response
method) and asked the Board to clarify if such statements are 'unconsolidated financial statements'.	detail.