



SAS Quadra 05. Bloco J. CFC  
Brasília, Distrito Federal - Brazil  
[www.cpc.org.br](http://www.cpc.org.br)

July 15, 2010  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

**RE: Exposure Draft on Conceptual Framework for Financial Reporting - The Reporting Entity**

Dear Sir/Madam,

The “Comitê de Pronunciamentos Contábeis” - CPC<sup>1</sup> welcomes the opportunity to comment on the Exposure Draft named Conceptual Framework for Financial Reporting - The Reporting Entity.

We are a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities:

- a) the São Paulo Stock Exchange;
- b) the Federal Accounting Council;
- c) the Brazilian Association of Listed Companies;
- d) the Brazilian Institute of Independent Auditors;
- e) the Research Institute of Accounting, Actuarial and Financial Foundation; and
- f) the National Association of Capital Market Investment Professionals and Analysts.

This response summarizes the views of our members, which may be supported by the opinions of external parties, sent to us for analysis and to enhance the discussion on the subject matter. We have also made efforts to encourage other external parties to send comments directly to the IASB.

If you have any questions about our comments, please contact our Board Member, Geraldo Toffanello ([geraldtoffanello@gerdau.com.br](mailto:geraldtoffanello@gerdau.com.br)).

Yours sincerely,

**Edison Arisa Pereira**  
Technical Coordinator  
Comitê de Pronunciamentos Contábeis (CPC)

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<sup>1</sup> Brazilian Accounting Standards Board



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## Consultation Questions

### 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 resources provided? (See paragraphs RE2 and BC4-7) If not, why?

#### Comment

*We agree that a reporting entity should not be limited to business activities that are structured as legal entities and the description of a reporting entity in this [draft] conceptual framework allows identifying a portion of a single entity as a reporting entity.*

*We understand that the [draft] conceptual framework describes reporting entity in general terms only (See the comment about question 3).*

*However, since the condition that an entity must present consolidated financial statements was explicit, we suggest that the general conditions under which an entity should present financial statements for its reporting entities should also be explicit. For example, suppose that for a given entity - which is a parent - has three qualified reporting entities: (1) a portion of its economic activities; (2) the entity itself as a legal entity; and (3) the group (the parent and its subsidiaries). In this case, the entity should present financial statements for each of the three reporting entities.*

### 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? (See paragraphs RE7, RE8 and BC18-23) If not, why?

#### Comment

*We agree both that if an entity that controls one or more entities prepares financial reports, it should present consolidated financial statements and with the definition of control of an entity.*

*In relation to the example given in paragraph BC 19 and 20, we suggest including an additional case in which there is participation of non-controlling. In this case, the*



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*subsidiary would qualify as a reporting entity due to usefulness of its financial information to non-controlling shareholders.*

### **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? (See paragraphs RE6 and BC10) If not, why?

#### **Comment**

*We 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.*

*However, the [draft] conceptual framework does not describe the conditions for objectively distinguishing the economic activities. For this reason, and considering that the usefulness of financial information about the economic activities depends on judgment, we consider that there will be difficulties for the practical application. For example, how to distinguish an operational segment from a reporting entity that is a portion of the entity that qualifies as a reporting entity?*

*Another doubt in this matter is: whether the financial information about a reporting entity (like a portion of the entity that qualifies as a reporting entity) ceases to be useful, then can we conclude that the entity no longer needs to present financial statements for that 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 concept should not be delayed until those standards have been issued? (See paragraphs BC27) If not, why?

#### **Comment**

*We agree that completion of the reporting entity concept should not be delayed until those standards have been issued provided that the [draft] conceptual framework for financial reporting clearly describes the conditions for applying the concept of the reporting entity (See comments of questions 1 and 3).*