



To: Allison McManus, International Accounting Standards Board
amcmanus@ifrs.org
Kevin McBeth, US Financial Accounting Standards Board
khmcbeth@fasb.org

By email

22nd July 2010

Dear Allison and Kevin

We are pleased to have the opportunity to comment on the joint Boards' Exposure Draft *Conceptual Framework for Financial Reporting: The Reporting Entity*.

We welcome the Boards' responsiveness to earlier comments which the CRUF and others have made in response to the earlier Discussion Paper and Exposure Draft on the overall Conceptual Framework. We note the positive changes made and believe that the second half in particular of paragraph RE2 captures much more effectively the need users have for good reporting from entities, to help them make decisions about providing resources and assessing how efficiently and effectively those resources have been used by management. This is not least so that investors can assess the likelihood with which management will be efficient and effective in using those resources going forwards.

However, we still have concerns regarding the proposed approach to the reporting entity. We believe that it is essential that common shareholders have a clear and transparent view of the impact that management decisions have on their investment, so that they as the ultimate providers of risk capital can hold management accountable for these decisions.

In our view, an entity concept that treats minority providers of equity capital to subsidiary companies as equivalent to common stockholders in the ultimate holding company is flawed and will not result in the transparency we desire.

We believe that there are two implications of this need for clarity over the line of accountability between the management and investors:



1. We believe that both shareholders and bond investors in the ultimate holding company need to understand the performance of the business which is available for distribution to them. Similarly, we believe that the performance of management is at risk of being masked where the performance of the business which they control is only disclosed including performance that is in fact to the benefit of shareholders in subsidiary companies within the group. We are therefore firmly of the view that the term 'entity' needs to be read such that minority interests can be excluded from the principal performance reporting for investors. Typically, users calculate the performance of the group including subsidiaries (for example when calculating Return on Capital Employed or valuation ratios based on Enterprise Value), but remove minority interests from calculations when analysing the performance of the parent company (for example Return on Equity and valuation ratios based on the share price such as P/E). For users to be able properly to understand the performance of management, the reported financial information needs to be capable of disaggregation by users, and the concept of the entity should support this approach.
2. We believe that care is needed in consolidation based on a control criterion. With regards to investment businesses, the performance of the management which matters is the value which they derive from investment management activities and that must not be made less transparent through being masked by consolidating all elements of the circumstances of the underlying investments. It is on the basis of this performance for which management is accountable to investors, and it would be extremely unhelpful to have that performance swamped by the consolidation of every vehicle and asset which is managed by the investment team.

About the Corporate Reporting Users' Forum (CRUF)

The CRUF came together in 2005 as a discussion forum to help its participants in their approach to the debate on current and future corporate reporting requirements. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters such as the IASB and FASB.

CRUF participants come from all around the world, including individuals from both buy- and sell-side institutions, and from both equity and fixed income markets.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations. It



does not seek to achieve consensus views, though at times some or all of its participants will agree to make joint representations to standard setters or to the media. It would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative.

We sign this letter in our individual capacity as participants of the Corporate Reporting Users' Forum (www.CRUF.com) and not as representatives of our respective organizations. The views expressed are those of individual CRUF participants and do not necessarily reflect the views of the respective organisations where we are employed.

The participants in the Forum that have specifically endorsed this response are listed below.

Yours sincerely



The Corporate Reporting Users' Forum

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The Corporate Reporting Users' Forum

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