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January 11, 2023

Ms. Hillary Salo
Technical Director
Financial Accounting Standards Board
801 Main Avenue
PO Box 5116
Norwalk, CT 06856-5116

File Reference No. 2022-ED200

Dear Ms. Salo:

RSM US LLP is pleased to provide feedback on the Financial Accounting Standards Board's (FASB or Board) Proposed Statement of Financial Accounting Concepts - *Concepts Statement No. 8, Conceptual Framework for Financial Reporting Chapter 2: The Reporting Entity* (the proposed Chapter or proposal).

Overall, we support the Board's proposed Chapter which would provide the FASB with a framework for matters related to the identification of a reporting entity. However, as discussed in our responses below to each of the questions posed in the proposed Chapter, we recommend that certain elements of the proposal be clarified to improve its understandability and operability.

Responses to Questions for Respondents

Question 1: Do you agree with the proposed description and features of a reporting entity in paragraphs RE4 and RE5? If not, why?

We agree with the proposed description and features of a reporting entity found in paragraphs RE4 and RE5 of the proposed Chapter. However, we recommend that the FASB consider incorporating certain elements of the International Accounting Standards Board's (IASB) definition of a reporting entity to further clarify the Board's proposal.

Paragraph 3.14 of the IASB's Conceptual Framework for Financial Reporting (Conceptual Framework) states that:

...determining the boundary of the reporting entity is driven by the information needs of the primary users of the reporting entity's financial statements. Those users need relevant information that faithfully represents what it purports to represent. Faithful representation requires that:

- (a) the boundary of the reporting entity does not contain an arbitrary or incomplete set of economic activities;*
- (b) including that set of economic activities within the boundary of the reporting entity results in neutral information; and*
- (c) a description is provided of how the boundary of the reporting entity was determined and of what constitutes the reporting entity.*

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We believe incorporating similar incremental guidance to the Board's proposed paragraph RE4 would add greater clarity to the term "circumscribed" when defining the boundaries of a reporting entity that is not a legal entity or comprised of entities not linked by a parent-subsidary relationship.

Features of a reporting entity

Paragraph RE5 of the proposed Chapter states the following:

A reporting entity has three features:

- a. Economic activities of the entity have been conducted.*
- b. Those economic activities can be distinguished from those of other entities.*
- c. The financial information in general purpose financial reporting faithfully represents the economic activities of the entity in the circumscribed area and is useful in making decisions about providing resources to the entity.*

It is unclear to us what level of economic activities would need to exist under subparagraph a. of RE5 for a reporting entity to exist. For example, is the occurrence of revenue producing activities necessary for a reporting entity to exist? Would a newly formed entity that has only expense producing activities meet the proposed feature or is the entity's mere creation sufficient for a reporting entity to exist? We believe economic activities should not require revenue producing activities and that newly formed entities that have only expense producing activities and meet the criteria in subparagraph b. and c. of RE5 should be considered to be a reporting entity. We recommend that the Board clarify this proposed feature of a reporting entity.

We further recommend that the Board amend subparagraph c. of RE5 to focus on the existence of record keeping and financial reporting processes necessary to produce the financial information included in general purpose financial reporting. As drafted, the proposed feature seems to emphasize the characteristics of general-purpose financial statements more so than the capabilities of an entity.

Question 2: Do you agree that a full set of consolidated financial statements is necessary to achieve the objective of general purpose financial reporting in circumstances in which a circumscribed area of economic activities represents a parent-subsidary relationship? If not, why?

We generally agree that a full set of consolidated financial statements is necessary to achieve the objective of general purpose financial reporting in circumstances in which a circumscribed area of economic activities represents a parent-subsidary relationship. However, as discussed further in our response to Question 3, we believe there are circumstances where less than a full set of consolidated financial statements would also serve the needs of the users of such financial statements, specifically within certain industries that follow specialized accounting practices that require accounting for substantially all investments at fair value, with changes in value recognized in earnings or the change in net assets (e.g., investment companies).

Question 3: Do you agree that parent-only financial statements do not represent a full set of financial statements and, consequently, are not sufficient to achieve the objective of general purpose financial reporting? If not, why?

We agree that parent-only financial statements do not present all required elements of financial statements and, as such, do not represent a full set of financial statements, as defined in paragraphs PR20 to 22 of Concepts Statement No. 8, Conceptual Framework for Financial Reporting - Chapter 7, *Presentation*.

However, in certain circumstances, we believe parent-only financial statements (or unconsolidated financial statements) may provide decision-useful information to financial statement users, even if such financial statements do not meet all the requirements of 'general-purpose financial reporting.'

Paragraph 3.17 of the IASB's Conceptual Framework states in part that:

Unconsolidated financial statements are designed to provide information about the parent's assets, liabilities, equity, income and expenses, and not about those of its subsidiaries. That information can be useful to existing and potential investors, lenders and other creditors of the parent because:

- (a) a claim against the parent typically does not give the holder of that claim a claim against subsidiaries; and*
- (b) in some jurisdictions, the amounts that can be legally distributed to holders of equity claims against the parent depend on the distributable reserves of the parent.*

The Board also acknowledges in paragraphs RE11 and BC8 of the proposed Chapter that parent-only financial statements may provide useful information in certain situations to resource providers.

Paragraph BC8 of the proposal states in part that:

...parent-only financial statements may help resource providers assess the level of dividends that the controlling entity is legally able to pay without depending on transferred funds from its subsidiaries, or perhaps reflecting the fair value of subsidiaries that are held as an investment if an entity elects to provide such fair value information for the investments.

Given the accounting model followed by investment companies in the U.S., we believe it would be helpful if the proposed Chapter acknowledged that in certain circumstances, parent-only or unconsolidated financial statements may also achieve the objectives of general purpose financial reporting. Alternatively, as discussed in our response to Question 4, we recommend that the Board clarify the meaning of 'special purpose financial reports.'

Question 4: Do you agree that a portion of an entity can represent a reporting entity? If not, why?

We agree that a portion of an entity can meet the three features of a reporting entity listed in paragraph RE5 of the proposed Chapter and can therefore represent a separate reporting entity. However, we have some questions regarding the concept of 'special purpose financial reports' discussed in paragraph RE14 of the proposed Chapter.

Paragraph RE14 of the proposed Chapter states the following:

Based on the needs of intended users, the portion of an entity may prepare financial reports that do not include a full set of financial statements. In those circumstances, the financial reports are special purpose. Because those special purpose financial reports do not completely depict the portion of an entity's circumscribed area of economic activities, the financial reports would not be considered general purpose financial reporting.

Paragraph BC10 of the proposed Chapter states the following:

The Board acknowledges that in some cases there are practical complexities in identifying the assets, liabilities, and operations of a portion of an entity, specifically for items that are allocated to the portion of the entity. To achieve the objective of general purpose financial reporting, the portion of a larger entity must prepare general purpose financial reports, including a full set of financial statements, that faithfully represent the economic activities of its circumscribed area, including activities that have to be allocated to the portion of the entity, such as corporate overhead activities.

The connection between paragraphs RE 14 and BC10 is unclear to us. Are the financial reports described in paragraph RE14 described as “special purpose” because they lack one or more statements (i.e., a balance sheet, statement of income, statement of changes in equity, or statement of cash flows) that comprise a full set of general-purpose financial statements, or because the financial reports lack an allocation of the entire entity’s economic activities (such as corporate overhead activities) that is otherwise necessary to faithfully represent the economic activities of the circumscribed portion? If the latter, we suggest that paragraph RE14 be clarified to reflect this concept more clearly. If the former, we believe the concept of special purpose financial reports applies to any instance when a full set of financial statements are not presented regardless of whether those reports are consolidated, combined, parent-only or portion of an entity financial statements. As such, we would recommend that the concept of special purpose financial reports be addressed more broadly and in a separate section of the proposed Chapter. Alternatively, because the purpose of the proposed Chapter is to discuss the concept of a reporting entity, it may be more appropriate to address the concept of special purpose financial reports in another chapter of the FASB’s Concepts Statement No. 8, such as Chapter 1, *The Objective of General Purpose Financial Reporting*, or Chapter 7, *Presentation*.

Question 5: Do you agree that combined financial statements appropriately depict two or more entities that are under common control, including circumstances in which a parent-subsidiary relationship does not exist? If not, why?

We agree that combined financial statements appropriately depict two or more entities that are under common control, including circumstances in which a parent-subsidiary relationship does not exist, as long as the resulting reporting entity represents a circumscribed area of economic activities for which the features of a reporting entity under paragraph RE5 of the proposed Update are met.

However, we believe the concept of combined financial statements should be broadened to also capture the financial statements of entities that are commonly managed, similar to how combined financial statements are defined in the Accounting Standards Codification Master Glossary.

To reflect this broader concept of combined financial statements, we recommend that paragraph RE15 of the proposed Chapter be amended as follows (added content ***in bold and underlined***):

*Combined financial statements can appropriately depict two or more entities that are under common control **or common management**, including circumstances in which a parent subsidiary relationship does not exist. If two or more commonly controlled **or commonly managed** entities are combined to represent a circumscribed area of economic activities, the circumscribed area can represent a reporting entity if it can prepare general purpose financial reports. A full set of combined financial statements is consistent with the objective of general purpose financial reporting.*

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We would be pleased to respond to any questions the Board or its staff may have concerning our comments and ask that questions be directed to Richard Stuart at 203.905.5027 or Joseph Cascio at 212.372.1139.

Sincerely,

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