



January 13, 2023

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

**Re: File Reference No. 2022-ED200**

Dear Ms. Salo,

This letter is submitted by Financial Executives International's (FEI) Committee on Corporate Reporting (CCR) in response to 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 (Exposure Draft or proposed Chapter).

FEI is a leading international organization comprised of members who hold positions as Chief Financial Officers, Chief Accounting Officers, Controllers, Treasurers, and Tax Executives at companies in every major industry. CCR is FEI's technical committee of approximately 50 Chief Accounting Officers and Corporate Controllers from Fortune 100 and other large public companies, representing more than \$11 trillion in market capitalization. CCR reviews and responds to pronouncements, proposed rules and regulations, pending legislation, and other documents issued by domestic and international regulators and organizations such as the U.S. SEC, PCAOB, FASB, and IASB.

This letter represents the views of CCR and not necessarily the views of FEI or its members individually.

**Executive Summary**

CCR appreciates the Board's effort to continue to improve the conceptual framework to provide a conceptual base for the development of future accounting standards. In our letter, CCR broadly supports the Board's proposed concepts on the description and features of a reporting entity and believes that a portion of a larger entity can be a reporting entity if the economic activities can be distinguished. CCR agrees with requiring a full set of consolidated financial statements when a circumscribed area of economic activities represents a parent-subsidary relationship. We believe a full set of consolidated financial statements helps achieve the objective of general purpose financial reporting by providing financial information about the reporting entity investors, lenders, and other resource providers find useful in making decisions.

## Reporting Entity

We agree with the proposed description and features of a reporting entity and commend the Board for aligning the objectives of financial reporting with Concepts Statement No. 8 Chapter 1.<sup>1</sup> We support the definition not being focused only on distinct legal entities as a reporting entity can span several legal entities and agree the focus should be on economic activities that can be distinguished from those of other entities. The proposed description and features are sufficiently concise to provide guidance on how to think about what qualifies as a reporting entity yet appropriately high level to provide for the use of judgment to determine information that would be useful to investors, lenders, and other resource providers.

Furthermore, we concur that a portion of a larger entity can be deemed a reporting entity if the economic activities can be distinguished and if the portion faithfully represents those economic activities in general purpose financial reporting. Such information can be useful for potential investors, lenders, and other resource providers in situations where a portion of a larger entity is being sold, spun off, or acquired, which may require filing of separate financial statements to satisfy regulatory requirements. A portion of a larger entity may be represented in the form of “carve-out” financial statements; therefore, we recommend the Board include “carve-out” financial statements in addition to “subsidiary, branch, or division” as examples.<sup>2</sup>

## Consolidated and Combined Financial Statements

We agree with the Board that a full set of consolidated financial statements is necessary to meet the objectives of general purpose financial reporting in circumstances where a circumscribed area of economic activities represents a parent-subsidiary relationship. We believe parent-only financial statements do not represent all of the activities, assets, and liabilities of subsidiaries needed to achieve the objective of general purpose financial statements. Assessing parent-only information may be misleading as these financial statements do not necessarily remove the impact of intercompany balances and transactions between the parent and subsidiary. Furthermore, investments in subsidiaries as presented in parent-only financials provide little context or transparency to the user. To fully understand the operations and results, further bifurcation of the subsidiary results is necessary and would generally be available in the consolidated financial statements. Parent-only financial statements may still be useful in some situations, such as when parent-only statutory financial statements are required in certain jurisdictions; however, such statements would not meet the “general purpose” definition.

We agree combined financial statements can appropriately depict two or more entities under common control including circumstances in which a parent-subsidiary relationship does not exist. We believe combined financial statements could meet the goal of providing the full picture of the economics of the respective activities when two or more entities under common control represent a circumscribed area of economic activities. Combined financial statements of entities under common control can be useful to resource providers in certain circumstances, such as when the resource providers have allocated resources to multiple entities under common control or the economic activities of those entities are related, or both.

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<sup>1</sup> See OB2 of the [Statement of Financial Accounting Concepts No. 8 Chapter 1](#).

<sup>2</sup> See RE12 of the [Exposure Draft](#).



## Conclusion

We appreciate this opportunity to provide feedback on the proposed Chapter to the Conceptual Framework related to The Reporting Entity. We thank the Board for its consideration of our comments and welcome further discussion with the Board or staff at your convenience.

Sincerely,

*Rudolf Bless*

Rudolf Bless  
Chair, Committee on Corporate Reporting  
Financial Executives International