EFRAG
European Financial Reporting Advisory Group

22 October 2008

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UK

Dear Sir/Madam

Discussion Paper *Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Reporting Entity*

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the IASB Discussion Paper *Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Reporting Entity (the DP)*. This letter is submitted in EFRAG's capacity of contributing to the IASB's due process.

The DP considers various issues for the purposes of developing a reporting entity concept for inclusion in a revised, converged IASB Framework. In particular, it considers:

(a) the extent to which (if at all) the Framework needs to explain what is a reporting entity. The DP suggests that the Framework should contain a broad description: "a circumscribed area of business activity of interest to present and potential investors, lenders and capital providers".

(b) how to circumscribe the area of business activity that represents a reporting entity. The DP notes that, when more than one entity is involved, control is generally used to circumscribe the area of business activity.

(c) what control should mean in this context. The DP suggests control over another entity entails both power over that entity and the ability to obtain benefits.

(d) which approach should be used to circumscribe the area of a business activity: the controlling entity model, the common control model and/or the risks and rewards model. The DP suggests that the controlling entity model should be used as the primary basis for determining the composition of a group reporting entity.

(e) whether consolidated financial statements should be prepared from the perspective of the group reporting entity or from the parent company shareholders. The DP suggests it should be the former.

(f) whether both the consolidated financial statements of the group and the separate financial statements of the parent of that group are general purpose financial statements. The DP suggests that consolidated financial statements are general purpose financial statements, but the Board members have differing views on the separate financial statements of the parent.

(g) various issues relating to control, such as latent control and the treatment of options over voting rights.

Our detailed comments on the DP are set out in the appendix. We have structured those comments as answers to the questions asked in the IASB's Invitation to Comment. Set out below is a brief summary of our main comments.

- We agree with the DP's proposal that the Framework should contain a broad description of a reporting entity. We are also broadly happy with the broad description proposed.

- We think that the DP should not have focused exclusively on two models based on exclusive control (the controlling entity model and the common control model) and the risks and rewards model. Instead, we think there should have been some discussion as to why application of the exclusive control notion will result in information that is more decision-useful than the application of the joint control or shared control notions.

- We do not agree with the DP's proposal that control should be used as the basis for determining the composition of a group reporting entity. In our view the high-level concept that should be applied to circumscribe the area of business activity involves both control and risks and rewards.

- We agree that, when using control to determine the composition of a group reporting entity, the controlling entity model should be used (although we also agree that in some circumstances the common control model will provide additional, useful information). We further agree broadly with how the DP proposes to define 'control' in this context (although we have raised some issues for further consideration). In particular, we agree that establishing whether control exists involves assessing all the existing facts and circumstances, that no single fact or circumstance will be evidence that one entity has control over another entity in all cases, and that no particular fact or circumstance should be a necessary condition for control to exist. We also agree that, to satisfy the power element of the definition of control, power must be held by one entity only.

- We think it would be premature to reach a conclusion on the perspective from which the consolidated financial statements should be presented until an in-depth analysis of all the issues involved has been carried out and that analysis has been comprehensively debated. The analysis in this DP and in the Framework ED on Phase A: Objectives and Qualitative Characteristics is not sufficient for these purposes.

- We agree that, if an entity that is a parent prepares a set of primary financial statements and accompanying notes that contain no information prepared on a consolidated basis, those financial statements will often not meet the proposed objective for general purpose financial reporting and will often need to be supplemented by a full set of consolidated financial statements to enable the objective to be met. It is also our view that, if a set of primary financial statements and accompanying notes contain only information prepared on a consolidated basis, they will also often not be sufficient to meet the proposed objective; at least some parent-only information also needs to be provided to enable the objective to be met.

We have one final, but very important, point. It is essential that the IASB's conceptual thinking takes fully into account the experiences gained from recent events in the financial markets. It is all too easy to implicitly make assumptions about the environment in which the concepts are to be applied, only to discover later that, should the environment change, the concepts do not work as well. We recommend therefore that the IASB take the time to ensure that the concepts in this DP and those it is developing in other parts of the Framework project do not assume financial stability in the markets.

If you would like further clarification of the points raised in this letter, please do not hesitate to contact me or Sigvard Heurlin.

Yours sincerely

Stig Enevoldsen
EFRAG, Chairman

Appendix:
EFRAG's responses to the questions asked in the Discussion Paper

Question 1

Do you agree that what constitutes a reporting entity should not be limited to business activities that are structured as legal entities? If not, why?

1 EFRAG agrees that what constitutes a reporting entity should not be limited to business activities that are structured as legal entities. As the DP argues (in paragraphs 16-22), not all businesses are operated through legal entities. It *can* sometimes be difficult in practice to determine exactly where the boundaries of an entity that is not a legal entity are, but that is an issue that is, in EFRAG's view, best addressed at the standards level.

Question 2

Do you agree that the conceptual framework should broadly describe (rather than precisely define) a reporting entity as a circumscribed area of business activity of interest to present and potential equity investors, lenders and other capital providers? If not, why? For example, do you believe that the conceptual framework should establish a precise definition of a reporting entity? If so, how would you define the term? Do you disagree with including reference to equity investors, lenders and other capital providers in the description (or definition) of a reporting entity? If so, why?

Should the Framework contain some sort of description or definition of a reporting entity?

2 In EFRAG's view, the notion of a reporting entity is central to the Framework. For example, the ED setting out proposed new chapters 1 and 2 of the Framework proposes that the objective of financial statements and other general purpose financial reporting is "to provide financial information about *the reporting entity* that is useful to [capital providers] in making decisions in their capacity as capital providers" (emphasis added). In later chapters the Framework will presumably explain what represents an asset and a liability *of the reporting entity*. Even characteristics such as relevance and completeness depend on there being a notion of what is being reported on (the reporting entity) and what is not.

3 Bearing that in mind, EFRAG believes the Framework needs to say something on the subject and to contain some sort of description or definition of a reporting entity.

4 EFRAG recognises, as the DP itself acknowledges, that it is for each jurisdiction to decide which entities should be required to provide regular financial reports and what form these reports should take. We do not however see any contradiction between that and the proposal that the Framework should set out some sort of description or definition of a reporting entity; in effect it is the law that is saying whether or not an entity should report, and the Framework and standards that set out the scope of that entity (ie where its boundaries are). Local law cannot reasonably be expected to deal with the kind of concepts and qualitative characteristics that are included in the Framework and IFRS for this purpose.

Is the broad description of a reporting entity proposed in the DP sufficient and appropriate?

5 The DP proposes to go no further in its description or definition of a reporting entity than to say it is a circumscribed area of business activity of interest to present and potential capital providers. We do not disagree with this description—we too believe that a reporting entity is some sort of cohesive economic unit about which users want information.

6 We have discussed at some length whether the description is too vague to be of much use. (This is an issue that the DP itself discusses in paragraphs 23 and 24, and it concludes that this broad description is not too vague to be of use when developing standards.) We doubt that the DP's broad description is precise enough to help an entity that is, for example, trying to use the Framework to determine whether something is within the scope of the reporting entity. That might be a concern, bearing in mind that the IASB´s Framework is sometimes applied at the standards level via the IAS 8 hierarchy.

7 However, our conclusion overall is that that is probably not a problem. In our view what the DP's broad description is saying is that a reporting entity is a collection of business activities which are in some way connected (hence the 'circumscribed') about which those who finance the collection of business activities wish to receive information. Later sections of the DP discuss what that connection should be, so the fact that the broad description is, when judged in isolation, rather vague is not an issue. Therefore, EFRAG agrees that a broad description of a reporting entity as a circumscribed area of business activity rather than a precise definition is a satisfactory way to capture the subject of a reporting entity.

The reference to capital providers in the description (or definition) of a reporting entity

8 The Framework ED on Phase A: Objectives and Qualitative Characteristics proposes that the objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to present and potential capital providers. If that is indeed the objective—and EFRAG is concerned about the reference to capital providers because it appears to lead to the conclusion that financial statements should be presented from an entity perspective—EFRAG believes it follows that it is appropriate for the DP's broad description to include a reference to equity investors, lenders and other capital providers. The reference makes the link to the objective of general purpose financial statements clear.

Question 3

Do you agree that the risks and rewards model does not provide a conceptually robust basis for determining the composition of a group reporting entity and that, except to the extent that it overlaps with the controlling entity model (as discussed in paragraphs 102 and 103), the risks and rewards model should not be considered further in the reporting entity phase of the conceptual framework project? If not, why?

9 As explained more fully in the paragraphs below, we agree that the notions underlying the risks and rewards model need to be more fully developed if they are to be made operational and robust. However, as a matter of principle we see risks and rewards and control as part of a single, comprehensive model, rather than as competing models, so we would encourage the IASB to carry out that further development work.

10 We think that what the DP is in effect saying is that a reporting entity is a collection of business activities that are connected by the existence of control as defined in the

DP. We are not convinced by this part of the DP, for several reasons.

(a) Paragraph 34 is right to ask whether "control is the most appropriate basis for determining the composition of a group reporting entity, or whether another basis should be adopted." However, paragraphs 35 to 37 state rather unconvincingly that the Board cannot afford to explore every conceivable approach and has therefore "focused on three approaches that seem reasonable candidates". Those are the controlling entity model, the common control model and the risks and rewards model. However, the DP does not satisfactorily explain why those models are seen as "reasonable candidates" or what the candidates considered to be unreasonable were. We would have expected the DP to have discussed this issue far more extensively and in terms of the decision-usefulness of the information provided.

(b) The DP also does not explain why or how the IASB determined that the three models mentioned were separate and competing models. This is important because we do not see the risks and rewards model and the controlling entity model as necessarily competing approaches.

(c) The DP argues that the risks and rewards model should not be considered further in the reporting entity phase of the conceptual framework project, whilst also acknowledging that the model has a role to play in dealing with SPEs. In our view, if the risks and rewards model has a role to play at the standards level, there is a good case for dealing with it at the concepts level. More importantly, we think it is unsatisfactory that the DP is proposing both a principle (the boundaries of the reporting should be determined by reference to control) and an exception to that principle (the risks and rewards model should be used to determine which SPEs should be part of the reporting entity).

(d) We note also that, since the publication of the DP, the IASB has been working on a staff draft of a possible exposure draft on Consolidations which is again based on control but, unlike the DP, is currently proposing that a control test can be used to deal with SPEs. It is also currently proposing a different definition of control from the one in the DP.

11 In our view, control on its own, at least in the way it is defined in the DP, is not sufficient for determining the composition of a group reporting entity. That is partly because we do not think the control notion deals adequately with SPEs. However, it is also because we think users are primarily interested in understanding where an entity's profits and losses might come from and this requires some sort of risks and rewards notion to be used to help determine the reporting entity's boundary. For that reason we believe that both control and risks and rewards are needed to draw the boundary of the group reporting entity in the place that is most useful for users.

12 Having said that, we accept that a satisfactory way of operationalising the combined control/risks and rewards approach at the standards level might be to say that, because there is so much overlap between the two, it will be sufficient in most cases to apply a control model , and to supplement that with a risks and rewards model in certain cases. In effect, the high-level concept (control and risks and rewards) is simply being expressed at the standards level in terms of a primary test (probably control) and secondary test (risks and rewards).

13 We recognise incidentally that it is not enough to talk simply of "risks and rewards"; the notion and underlying model need to be developed further if they are to be made operational and robust. The DP does this to a certain extent for the notion of control, but not for risks and rewards.

14 We have a couple of other comments that might be worth considering further:

(a) The DP proposes in its working definition of 'control' that control comprises the power to direct and an ability to benefit from that power. Based on what we have discussed above, we think that one possibile approach might be to incorporate the key risks and rewards notions in a much 'richer' benefit criterion. Amongst other things, this ought to help in differentiating between control in a parent-subsidiary relationship and, say, the relationship that exists between trustees and fund managers and the assets and liabilities they care for.

(b) However, enriching the benefit criterion in the proposed control definition would on its own not help in the case of 'pre-programmed SPEs' (ie auto-pilots), because in those cases no one has the power to direct. That suggests that focusing on a 'power to direct' when assessing whether control exists is either inappropriate or serves as a proxy for some other, more fundamental principle.

Question 4

Assuming that control is used as the basis for determining the composition of a group reporting entity, do you agree that:

(a) control should be defined at the conceptual level?

(b) the definition of control should refer to both power and benefits?

If not, why? For example, do you have an alternative proposed definition of control?

15 As explained in our response to question 3 above, EFRAG does not agree that it should be assumed that control is used as the basis for determining the composition of a group reporting entity. However, in order to be helpful, the remainder of our answer to this question is based on the premise that we accept that assumption.

16 EFRAG agrees that, if control should be used as the basis for determining the composition of a group reporting entity, control should be defined at the concepts level—it is too important a notion for the Framework to stay silent about—and that the definition of control should refer to both power and benefits.

17 The DP proposes the following working definition of control:

> The ability to direct the financing and operating policies of an entity, so as to access benefits from that entity (or to reduce the incidence of losses) and increase, maintain or protect the amount of those benefits (or reduce the amount of those losses).

18 EFRAG believes that this proposed definition achieves a satisfactory balance between an operational definition and high concepts, and that standards can be used to fill in the detail.

19 We have already discussed the definition of control to some extent in our response to question 3, where we suggested that it might be appropriate to incorporate the key risks and rewards notions into a much 'richer' benefit criterion and we also suggested that focusing on a 'power to direct' might either be inappropriate or serve as a proxy for some other, more fundamental principle. We also have the following, more detailed comments on the proposed definition.

(a) We think the working definition will need to be refined to make it clear that the benefit criterion is not intended to capture trustees, asset managers and others who are delegated a power to direct in return for a fee that is sometimes based on the value of the assets underlying that direction, or even a performance-related fee.

(b) We are not convinced that the last part of the proposed working definition ("and increase, maintain or protect the amounts of these benefits (or reduce the amount of those benefits)") adds anything. This could mean that the significance of the words is not sufficiently clear, but could also mean that the words are superfluous.

(c) It has become clear during our discussions that the use and positioning of the words "so as to" in the definition is difficult for some non-native English speakers to understand. We encourage the IASB to find a simpler form of words.

20 We further note that the DP assumes that control is something an entity either does have or does not have. Yet many jurisdictions have legislation or regulations that protect minority interests to varying degrees, and the effect of this is that there are more restrictions on what a 51% shareholder can do with its investment than on what a, say, 90% shareholder can do. We think the discussion in the DP—and eventually in the revised Framework—would be richer if it discussed this in terms of its control definition. For example, one possible way of discussing the issue might be to say that, although the current control definition requires the controller to have a power to direct the financing and operating policies of the controlled entity, the definition does not require the controller to have absolute power to do whatever it wanted.

Question 5

Do you agree that the composition of a group reporting entity should be based on control? If not, why? For example, if you consider that another basis should be used, which basis do you propose and why?

21 As already explained in our response to question 3, we do not agree that the composition of a group reporting entity should be based on control alone. In our view, at the concepts level the composition of a group reporting entity should be determined by considering both control and risks and rewards; circumscription is about both risks and rewards and control.

22 As also explained in our response to question 3, we accept that for practical purposes this high-level concept translates into applying a control model in most cases, and supplementing it with the risks and rewards model in certain limited circumstances.

23 In responding to question 3, we noted that the DP focuses on the controlling entity model, the common control model and the risks and rewards model without sufficient prior analysis, and in particular without discussing the possible candidates in terms of the decision-usefulness of the information provided. One consequence of this is that the DP does not explain why the IASB concluded that joint control and shared control were not worthy of further consideration. We think it would be extremely useful were the IASB to provide an analysis of the decision-usefulness of the information derived from using such concepts to determine the boundaries of the group reporting entity.

Question 6

Assuming that control is used as the basis for determining the composition of a group reporting entity, do you agree that the controlling entity model should be used as the primary basis for determining the composition of a group entity? If not, why?

24 As explained in our response to question 3 above, EFRAG does not agree that it should be assumed that control is used as the basis for determining the composition of a group reporting entity. However, in order to be helpful, the remainder of our answer to this question is based on the premise that we accept that assumption.

25 The DP discusses three possible approaches—the controlling entity model, the common control model and the risks and rewards model—before eventually settling on the controlling entity model. As might have become clear already from the way we have discussed the risks and rewards model, we think the DP's approach to this issue is not quite right. In our view, one first defines the notion that should be treated as the thing that links together entities within a group reporting entity—the DP proposes it should be control; we have proposed that it should be both control and risks and rewards—and then decide exactly how that linking notion should be used to identify the entities forming the group reporting entity—in the DP's case it proposes the controlling entity model should be used to implement a linking notion based on control. Question 6 is about the second issue (deciding how the linking notion should be used) and we think this is the wrong place to be discussing the risks and rewards model.

26 However, focusing specifically on the question asked, we agree that the controlling entity model should be used rather than the common control model as the primary basis for determining the composition of a group reporting entity when control is being used as the determinant. That is because we believe that the group reporting entity should include the controlling entity, as well as those entities it controls.

Question 7

Do you agree that the common control model should be used in some circumstances only? If not, why? For example, would you limit the composition of a group reporting entity to the controlling entity model only? Or would you widen the use of the common control model? If you support the use of the common control model, at least in some circumstances, do you regard it as an exception to (or substitute for) the controlling entity model in those circumstances, or is it a distinct approach in its own right? Please provide reasons for your responses.

27 Putting aside for a moment our comments about the need to incorporate control and risks and rewards into a single model, EFRAG's view is that:

(a) the controlling entity model is the appropriate way of determining the composition of a group reporting entity, rather than the common control model;

(b) it will sometimes be useful to supplement financial statements prepared on the basis of the controlling entity model with additional information prepared on the basis of the common control model. For example this could be the case when entities are under common control of a family. In such situations cash is often transferred between the entities and an aggregate view might be required to reflect properly the financial position of something which obviously works as a group in certain respects.

Question 8

Do you agree that consolidated financial statements should be presented from the perspective of the group reporting entity, not from the perspective of the parent company's shareholders? If not, why?

28 We note that the IASB Framework ED on Phase A: Objectives and Qualitative Characteristics proposes the adoption of the entity perspective. It is our understanding that, although the wording used is slightly different, the ED's references to the entity perspective and the DP's references to the perspective of the group reporting entity are references to the same thing.

29 Bearing that in mind, we repeat the comments we have made in response to the ED's proposal. We believe that it is essential that there is a comprehensive and in depth debate about the perspective from which general purpose financial statements should be presented before a conclusion is reached on the subject. And in order to have that debate, a much more comprehensive analysis of the issue is needed than that set out in either the ED or DP.

Question 9

Do you agree that consolidated financial statements provide useful information to equity investors, lenders and other capital providers? If not, why?

30 Before answering this question and question 10, we thought it would be helpful to make some general comments. We are making those comments now because we do not think they respond directly to the questions asked but are important, both in themselves and in order to understand our responses to questions 9 and 10.

(a) We agree that consolidated financial statements provide useful information to equity investors, lenders and other capital providers. However, in our view if a set of primary financial statements and accompanying notes contain only information prepared on a consolidated basis, they will often not be sufficient to meet the proposed objective for general purpose financial reporting set out in OB2 of the Framework ED on Phase A: Objectives and Qualitative Characteristics; at least some parent-only information also needs to be provided to enable the objective to be met.

(b) Similarly, if an entity that is a parent prepares a set of primary financial statements and accompanying notes that contain no information prepared on a consolidated basis, those financial statements will in our view often also not meet the proposed objective; although in this case we believe that *a full set of consolidated financial statements* needs to be provided in addition to the parent-only financial statements to enable the objective to be met. Having said that, we believe that parent-only financial statements will provide information that is useful to equity investors, lenders and other capital providers.

(c) We think it follows from this that consolidated financial statements are general purpose financial statements. However, we have different views on what it means for parent-only financial statements with some members believing that, as parent-only financial statements are not capable of meeting the objective of general purpose financial reports unless they are supplemented by a full set of consolidated financial statements, it follows that parent-only financial statements are not general purpose financial statements.

(d) We have also debated what the reporting entity is that is the subject of a set of consolidated financial statements; is it the group or the parent? EFRAG members have different views on this issue, with some arguing that the DP's description of a reporting entity (in effect, an area of business activity circumscribed by control) implies that only the group is a reporting entity. This view also leads to the conclusion that parent-only financial statements are not general purpose financial statements. Other EFRAG members have different views.

31 Turning now to the specific question asked: yes, EFRAG agrees that consolidated financial statements provide useful information to meet the objective of financial reporting. However, in our view providing only consolidated information will *not* be sufficient to enable the financial statements to meet the objective set out in the Framework; the consolidated information needs to be supplemented with parent-only financial statements or extracts thereof.

Question 10

Do you agree that the conceptual framework should not preclude the presentation of parent-only financial statements, provided that they are included in the same financial report as consolidated financial statements? If not, why?

32 In responding to question 9 we explained that our view is that, although consolidated financial statements provide useful information, consolidated information will *not* be sufficient on its own to enable the objective of financial reporting to be met; the consolidated information needs to be supplemented with parent-only financial statements or extracts thereof. In our view, the same is true of parent-only financial statements; they by themselves provide useful information but are not sufficient to meet the objective of financial reporting.

33 In EFRAG's view, the Framework should not preclude the presentation of parent-only financial statements, provided that they are issued at the same time as the consolidated financial statements. However, we do not think it is essential that the parent-only financial statements and consolidated financial statements are included in the same financial report. Furthrmore, we do not think that this issue—which we see as a matter of form, not substance—should be addressed in the framework.

Question 11

With regard to the concept of control, in the context of one entity having control over another, do you agree that:

(a) establishing whether control exists involves assessing all the existing facts and circumstances and, therefore, that there are no single facts or circumstances that evidence that one entity has control over another entity in all cases, nor should any particular fact or circumstances—such as ownership of a majority voting interest—be a necessary condition for control to exist? If not, why?

(b) the concept of control should include situations in which control exists but might be temporary? If not, why?

(c) the control concept should not be limited to circumstances in which the entity has sufficient voting rights or other legal rights to direct the financing and operating policies of another entity, but rather should be a broad concept that encompasses economically similar circumstances? If not, why?

(d) in the absence of other facts and circumstances, the fact that an entity holds enough options over voting rights that, if and when exercised, would place it in control over another entity is not sufficient, in itself, to establish that the entity currently controls that other entity? If not, why?

(e) to satisfy the power element of the definition of control, power must be held by one entity only? In other words, do you agree that the power element is not satisfied if an entity must obtain the agreement of others to direct the financing and operating policies of another entity? If not, why?

(f) having 'significant influence' over another entity's financing and operating policy decisions is not sufficient to establish the existence of control of that other entity? If not, why?

34 EFRAG agrees with the statement in (a). Frameworks should be based on principles and it would be inconsistent with that to establishing whether control exists without considering all the facts and circumstances or by applying a rule that control cannot exist if a particular fact or circumstance is not present. As we are strong supporters of a principles-based approach to standard-setting, we are in favour of all the concepts in the Framework—including the control notion—being operationalised at the standards level without resorting to rules.

35 In view of our comment above (that the existence of control should be determined by considering all the facts and circumstances and by applying principles rather than rules), we do not think it is really necessary to respond to (b) and (c) separately; they are simply sub-issues of the issues addressed in (a). However, for the record our answer in both cases is 'yes': the concept of control should not preclude situations in which the control that exists is temporary and should not be limited to circumstances in which the entity has sufficient voting or other legal rights to direct the policies of the another entity.

36 We have not yet reached a conclusion on issue (d) and in any case believe this to be an issue that is best debated and resolved at the standards-level.

37 EFRAG agrees with the statements in (e) and (f). An entity does not have the power to direct referred to in the DP definition of control if it cannot act unilaterally or if it only has influence. However, as we note in our response to question 5, we think there is insufficient discussion in the DP of the notions of joint control and shared control and no explanation as to why application of the exclusive control notion will result in information that is more decision-useful than the application of the joint control or shared control notions.

Question 12

Should any of the above control issues be addressed at the standards-level rather than at the concepts level? If so, which issues and why?

38 EFRAG has not debated this issue at great length. However, its initial view is that issues (a) (incorporating (b) and (c)) and (e) should be addressed at the concepts level, and the other issues ((d) and (f)) are perhaps better dealt with at the standards level.

Question 13

Are there any other conceptual issues, relating either to the control concept or to some other aspect of the reporting entity concept, that are not addressed in this discussion paper and should be addressed at the concepts level? If so, which issues and why?

39 EFRAG has not so far identified any further significant conceptual issues that should be addressed in the DP. We note however that a view expressed by our constituents is that a circumscribed area can at times be inactive, which should be reflected in the proposed description.