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**International
Accounting Standards
Board**

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.

These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IASB Meeting: 26 April 2006, London
Project: Conceptual Framework: Reporting Entity
(Agenda Paper 8)

INTRODUCTION

1. At its March meeting, the Board continued its discussions on the reporting entity phase of the conceptual framework project (Phase D). The Board discussed two of three issues covered in the staff paper (Agenda Paper 3). There was insufficient time to consider the third issue, on the meaning of control in the context of one entity having control over another entity.
2. This paper carries over the relevant section of Agenda Paper 3 (with minor editorial amendments, for example, to revise paragraph cross-references). It also summarises the FASB discussions of the meaning of control at its meeting on 5 April.
3. The cross-cutting issues for the reporting entity project phase are set out in the Appendix. Issue RE4 asks whether control is the right basis for consolidation. The preliminary staff research presented to the Board in December 2005 reached an initial conclusion that determining which entities should be combined to form a group entity should be based upon the concept of control, as a minimum. However, the staff noted that further work is needed on the control concept before reaching final conclusions. Furthermore, the staff suggested exploring the issue of whether the control concept

should be supplemented in some way, or be a component of a higher level concept.

The December staff paper noted the following:

For example, suppose there are two entities that are related (e.g., under common management or with common shareholding), but neither entity controls the other. The control concept alone would not require these two entities to be combined into a single reporting entity. Nevertheless, there might be external users who would find it useful to have financial reports that combine the two entities into one reporting entity.

Similarly, in accounting practice, difficulties are sometimes encountered when applying the control concept in particular situations, for example, in the context of special purpose entities. If a reporting entity concept could be developed in which the control concept is supplemented in some way, or is a component of a higher level concept, this approach might prove helpful in the context of special purpose entities. [IASB Agenda Paper 2B, FASB Memorandum 20, paragraphs 125 and 126.]

4. The Board agreed that the staff should conduct further research into the idea of whether the boundaries of a group reporting entity should be based on a broader concept of control, for example, a concept that might encompass entities under common control. To do that, the staff begins by considering Issue RE5 on the meaning of control, in the context of one entity having control over another entity, together with the related issues about control in Issue RE8.

THE MEANING OF CONTROL

Introduction

5. This section addresses the following cross-cutting issues:

RE5: What does control of another entity mean? Should this be defined at the concepts level or at the standards level?

RE8: Does it matter if an entity has control of another entity today but might lose control later (e.g., control today only because of dispersion of other shareholdings)? What if an entity does not have control today, but could gain control of another entity tomorrow (e.g., by exercise of an option)?

Should Control of Another Entity Be Defined at the Concepts Level or at the Standards Level?

6. As noted in earlier staff papers,¹ the U.K. SoP and Australian SAC 1 are the only conceptual frameworks that discuss the reporting entity concept. Both SAC 1 and the SoP define the meaning of control. Hence, both standard setters thought it necessary to define control at the concepts level.
7. In the staff's view, assuming that the control concept is retained in the context of determining when two or more entities should be combined to form a group reporting entity, the conceptual framework should define—or at least contain *some* discussion of—the meaning of the control. To do otherwise would result in the conceptual framework being so vague that it would likely be of little use at the standards level.
8. If control is defined at the concepts level, one difficulty might be drawing the line between issues to be addressed at the concepts level, and those to be dealt with at the standards level. At one end of the spectrum, in the staff's view, it seems inappropriate for the conceptual framework to contain a detailed, lengthy discussion of the meaning of control that covers all known application issues. Application issues generally are best dealt with at the standards level. Also, new application issues will continue to arise; the framework would quickly become out of date if it sought to provide such detailed guidance. But at the other end of the spectrum, if the discussion is too brief, the conceptual framework may be of little help in addressing issues at the standards level. The staff expects that the Boards' discussion of the issues addressed this paper will provide direction for drawing that line.

What Does Control of an Entity Mean?

9. The meaning of control, in the context of one entity having control over another, is discussed below. The selection of issues included in that discussion is based on various factors:
 - a. The cross-cutting issues identified for the reporting entity project phase
 - b. Similarities and differences between existing definitions of control
 - c. Issues discussed in SAC 1 and the SoP.
10. The staff has attempted to keep the discussion relatively high level, and therefore some issues may require further analysis, if the Boards so wish. Similarly, if there are issues

¹ For example, December 2005, IASB Agenda Paper 2B, FASB Memorandum 20.

not included in the discussion below that the Boards believe should be addressed at the concepts level, those issues will be addressed at a later date.

Overview

11. In its ordinary sense, control is defined as follows:

The fact of controlling, or of checking and directing action; the function or power of directing and regulating; domination, command, sway. [Oxford English Dictionary, Second Edition, 1989.]

12. Control therefore may be viewed as a synonym for power, in particular, the power to direct something. Some accounting definitions² also define (or proposed to define) control as a synonym for power, for example:

Control of an enterprise is the continuing power to determine its strategic operating, investing and financing policies without the co-operation of others. [CICA Handbook, Section 1590, *Subsidiaries*, paragraph .03]

Control of an entity is power over its assets—power to use or direct the use of the individual assets of another entity in essentially the same ways as the controlling entity can use its own assets. [1995 FASB Exposure Draft, *Consolidated Financial Statements: Policies and Procedures*, paragraph 10.]

13. However, most accounting definitions of control refer not only to power over another entity, but also to benefits obtained from that entity. For example:

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. [IAS 27, *Consolidated and Separate Financial Statements*, paragraph 4.]

“Control” by one entity over another entity exists in circumstances where the following parts (a) and (b) are both satisfied:

- (a) the first entity has the capacity to determine the financing and operating policies that guide the activities of the second entity...
- (b) the first entity has an entitlement to a significant level of current or future ownership benefits, including the reduction of ownership losses, which arise from the activities of the second entity.

[NZ FRS-37, *Consolidating Investments in Subsidiaries*, paragraph 4.13]

The ability of an undertaking to direct the financial and operating policies of another undertaking with a view to gaining economic benefits from its activities. [UK FRS 2, *Accounting for Subsidiary Undertakings*, paragraph 6]

Control—the ability of an entity to direct the policies and management that guide the ongoing activities of another entity so as to increase its benefits and limit its

² This paper focuses on the meaning of control for accounting purposes, and therefore draws on definitions of control found in accounting standards and accounting conceptual frameworks. Other sources of definitions of control include companies legislation, securities regulations, and legal and economics literature.

losses from that other entity's activities.... [1999 FASB Exposure Draft, *Consolidated Financial Statements: Purpose and Policy*, paragraph 6(a).]

14. Similarly, even though the Canadian definition shown above does not explicitly refer to benefits, its explanatory material adds:

The right and ability of the parent to obtain future economic benefits from the resources of an enterprise that it controls and the parent's exposure to the related risks are *necessary characteristics* of a parent-subsidiary relationship. [CICA Handbook, Section 1590, *Subsidiaries*, paragraph .04, emphasis added.]

15. The SoP explains the meaning of control, both in general and in the context of control of another entity. In both cases, the ability to benefit is a necessary component of control:

Control has two aspects: the ability to deploy the economic resources involved and the ability to benefit (or to suffer) from their deployment. To have control, an entity must have both these abilities.

An entity will have control of a second entity if it has the ability to direct that entity's operating and financial policies with a view to gaining economic benefit from its activities. [SoP, paragraphs 2.8 and 2.11]

16. The definition in SAC 1 is not as explicit in referring to benefits, but the staff interprets the last part of the definition as relating to benefits obtained from the other entity:

“control” means the capacity of an entity to dominate decision-making, directly or indirectly, in relation to the financial and operating policies of another entity so as to enable that other entity to operate with it in achieving the objective of the controlling entity. [SAC 1, paragraph 6]

17. The reason for including a benefits element, rather than simply defining control as a synonym for power, is to exclude situations in which an entity might have power of another entity as a trustee or agent. For example, the SoP, after defining control as requiring both the ability to deploy economic resources and the ability to benefit from their deployment, then explains:

This can be contrasted with the position in a trusteeship or agency arrangement, where the abilities are held by different parties. For example, in a trusteeship, the trustee...has the power to deploy the trust's resources whilst the beneficiaries benefit from their deployment. (SoP, paragraph 2.9)

18. In the staff's view, this approach is appropriate. As discussed in the preliminary staff research for the reporting entity project phase,³ to satisfy the objective of financial reporting, the entity should report information about its assets. For something to be an asset of the entity (under existing definitions of an asset and the working definition

³ December 2005, IASB Agenda Paper 2B, FASB Memorandum 20.

being developed in Phase B of the conceptual framework project), it must be capable of generating economic benefits to the entity. Therefore, consistent with the asset definition, the definition of control should exclude situations in which the entity might have power over another entity but without the ability to benefit from that power.

19. Of course, a trustee or agent might have the ability to obtain some benefits, such as a commission or fee. However, the primary responsibility of a trustee or agent is to use their power over another entity not to benefit the trustee or agent themselves, but to benefit the trust's *beneficiaries* or agent's *principal*. Hence, most definitions of control link the power element with the benefits element, such that control entails an entity using its power for its *own* benefit. The most explicit example of the linkage of the power element with the benefits element is found in the IASB's consolidations project.

...control of an entity is the ability to direct the strategic financing and operating policies of an entity so as to access benefits flowing from the entity and increase, maintain or protect the amount of those benefits. Therefore, to control an entity the potential controller must satisfy three tests:

- it must have the ability to direct the strategic financing and operating policies of the entity (the 'Power Criterion');
- it must have the ability to access the benefits flowing from the entity (the 'Benefits Criterion'); and
- *it must be able to use its Power so as to increase, maintain or protect the amount of those benefits.*

[IASB web site, Project Update, *Consolidations (including special purpose entities)*, 5 December 2005, paragraph 23, emphasis added.]

20. For the purposes of discussing further the meaning of control in the remainder of this paper, the staff proposes to use that definition of control:

Control of an entity is the ability to direct the strategic financing and operating policies of an entity so as to access benefits flowing from the entity and increase, maintain or protect the amount of those benefits.
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Determining When One Entity Has Control of Another

21. Both SAC 1 and the SoP note that determining when one entity controls another entity involves an assessment of all the facts and circumstances; there is no single fact or circumstance that demonstrates that one entity has control over another in all cases.⁴
22. Similarly, accounting standards that define control contain discussion of a variety of factors to consider when assessing whether one entity controls another.⁵

⁴ SAC 1, paragraph 17; SoP, paragraphs 2.12 to 2.15.

23. One exception is ARB No. 51, *Consolidated Financial Statements*, which does not define control or discuss a variety of factors to consider when assessing control.

Rather, it states:

The usual condition for a controlling financial interest is ownership of a majority voting interest, and, therefore, as a general rule ownership by one company, directly or indirectly, of over fifty percent of the outstanding voting shares of another company is a condition pointing toward consolidation. [Paragraph 2.]

24. Ownership of a majority of the voting interest is expressed as being the *usual* condition for a controlling financial interest, but the staff understands that, in U.S. practice, this is generally interpreted as being a *necessary* condition.⁶ (That is not, however, the view acknowledged by the FASB in 1987 when it said that “ownership of a majority voting interest...is the most common but not the only means of controlling a subsidiary.”)⁷ U.S. practice contrasts with other accounting standards, in which ownership of a majority of the voting interest is not a necessary condition, as control can exist through other means. For example, IAS 27 lists other situations in which control exists even though the parent owns half or less of the voting power of another entity.⁸ Similarly, the SoP notes:

Although control of another entity has traditionally involved share ownership and voting rights, that need not be the case. (SoP, paragraph 2.12)

25. In the staff’s view, the approach taken in the SoP, SAC 1, and the majority of accounting standards is appropriate and should be made clear in the conceptual framework. That is, determining whether one entity has control over another entity involves an assessment of all the facts and circumstances; there is no single fact or circumstance that evidences that an entity has control over another entity in all cases, nor should one particular fact or circumstance—such as ownership of a majority voting interest—be regarded as a necessary condition for control to exist, as control can exist through other means. For example, an entity might own less than half of the voting rights, but have the ability to control the other entity by means of a contract, statute, or an agreement with other shareholders.

⁵ Examples include accounting standards in Australia, Canada, New Zealand and the UK; IAS 27; and the proposals in the 1995 and 1999 FASB Exposure Drafts.

⁶ However, it is not necessarily a *sufficient* condition, because having a majority voting interest does not guarantee control, for example, in bankruptcies or foreign expropriations.

⁷ FASB Statement No. 94, *Consolidation of All Majority-Owned Subsidiaries*, paragraph 20.

⁸ IAS 27, paragraph 13.

The Power Element

Power Over Financing and Operating Policies

26. The power element in the working definition of control (in paragraph 20) is expressed as “the ability to direct the strategic financing and operating policies of an entity”. This is consistent with other definitions of control, that is, power relates to the other entity’s financing and operating policies. This is based on the view that, if an entity has the ability to direct the financing and operating policies of another entity, then it has the power to decide how that other entity’s resources are obtained, used and financed, in essentially the same way as it could if it had directly engaged in those activities itself.⁹ (The 1995 FASB ED, as shown in the definition set out in paragraph 12, applies the power element at a lower level—it refers to power over the other entity’s assets rather than power over that entity’s operating and financial policies. The staff understands that respondents to the ED were concerned that this definition could be misread as precluding control where a restriction was placed on a particular asset or class of assets of an entity, which limited the ability to use that asset, but did not deprive the parent of the overall ability to direct use of that entity’s assets. The staff observes that the definition of control in the 1999 FASB ED did not refer to power over assets, but referred instead to the ability to direct the policies and management that guide the on-going activities of the other entity, as shown in the definition set out in paragraph 13).
27. The working definition also includes the adjective *strategic*, that is, it refers to the ability to direct the other entity’s *strategic* financing and operating policies, whereas most other definitions of control do not include this adjective. [Portion omitted from Observer Notes]. At this stage, the staff does not recommend its inclusion in the definition of control. That can be considered further at a later date, if necessary.

Power Is Non-Shared

28. Some accounting standards (and other sources, such the 1986 FASB partial draft document) make it clear that to satisfy the power element, power cannot be shared with others. For example, NZ FRS-37 states:¹⁰

The decision-making capacity that satisfies the power element of control must be unilateral. The capacity cannot be shared or divided such that it enables power to be exercised jointly by two or more partners or co-owners. The ability to participate with others in making decisions that guide the activities of another entity usually

⁹ 1986 FASB partial draft document, *Reporting Entity—Tentative Conclusions*, paragraph 241.

¹⁰ Other examples include AASB 1024 and Canadian Handbook (Section 1590).

characterises joint venture relationships, which are covered under a separate financial reporting standard. [Paragraph 4.21]

29. The staff agrees that, to satisfy the power element of the definition of control, power should be non-shared—an entity does not have power over another entity if the first entity must obtain the agreement of others to direct the financing and operating policies of the second entity.
30. [Portion omitted from Observer Notes]...control is distinguished from joint control. Joint control will be considered at a later date, when cross-cutting issue RE7 is addressed:

Joint ventures—concept of joint control; joint control over entity or assets? What about ‘significant influence’—how does that fit in with the control concept?

Legal Right to Exercise Power versus Ability to Do So

31. The working definition of control (in paragraph 20) refers to *the ability* to direct the strategic financing and operating policies of the other entity. There might be situations in which the entity has that ability, but does not have the *legal right* to do so. For example, an entity might be able to direct the financing and operating policies of another entity when it owns a minority of voting rights and the holdings of other voting rights are widely dispersed and disorganised. This is sometimes referred to as *de facto control* or *effective control*.
32. In the staff’s view, the control concept should not be limited to circumstances in which the entity has the legal right to direct the financing and operating policies of another entity, but should be a broad concept that encompasses economically similar circumstances. [Portion omitted from Observer Notes].
33. [Paragraph omitted from the Observer Notes].
34. Of course, if the entity has the present ability to control another entity in the situation described above (paragraph 31), but not the legal right to do so, then control may be temporary, as the controlling entity might lose control if the other shareholders organise themselves to vote against what was the controlling entity. This issue is discussed below.

Temporary Control and Other Timing Issues

35. Cross-cutting issue RE8 asks the following questions:

Does it matter if one has control today but might lose control later (e.g., control today only because of dispersion of other shareholdings)? What if one does

not have control today, but could gain control tomorrow (e.g., by exercise of an option)?

36. Both of these questions relate to the timing of control. On a general level, in the staff's view, whether one entity has control over another should be based upon an assessment of the *present* facts and circumstances.
37. Therefore, in the staff's view, at the concepts level the answer to the first question in paragraph 35 is "no". That is, in the staff's view, the control concept should not exclude situations in which control might be temporary. (That does not preclude the possibility of providing exemptions from consolidation at the standards-level if thought appropriate in specific circumstances, such as when the controlling entity is obliged to relinquish control within a relatively short time after acquisition.)¹¹
38. The example in the first question in Issue RE8 might be questioning whether the control concept should encompass effective or de facto control, which has already been discussed above (paragraphs 31–34). The second question in Issue RE8 relates to potential voting rights, or other means of taking control by unilateral action by the entity. This is sometimes referred to as latent control.

Latent Control and Potential Voting Rights

39. Another form of control that is sometimes discussed is *latent control*. The SoP notes that if an entity has the ability to control another entity, it is usually presumed that the first entity is exercising control, even if such control is not apparent.¹² The 1986 FASB draft states that latent control exists if a unilateral action by one entity will clearly place it in control of another, provided that the economic cost of that action is not so high that it would be irrational to take the action.¹³ It gives an example of an entity that holds debt securities that are convertible at any time at the entity's option into 90 percent of a second entity's voting common stock. Similarly, accounting standards typically require that potential voting rights be considered, when assessing whether control exists.¹⁴ The issue of potential voting rights will be considered later in the project, in the context of cross-cutting issue RE6:

Is there a difference between control over an entity and control over assets?
Which should provide the basis for consolidation?

¹¹ For example, NZ FRS-37, paragraph 5.5(a).

¹² SoP, paragraph 2.18.

¹³ 1986 FASB draft, paragraph 217.

¹⁴ For example, IAS 27, Canadian Handbook (Section 1590), AASB 1024, and NZ FRS-37.

40. This issue raises questions about the treatment of options and is related to other issues to be addressed in Phase B, concerning options over assets. The staff plans to address issue RE6 once the Boards have considered the related issues in Phase B.

Summary

41. The above discussion of the power element can be summarised as follows:
- a. Power relates to the entity's *financing and operating policies*
 - b. Power is *non-shared*
 - c. *The ability* to direct the financing and operating policies of the other entity is sufficient; hence, in concept, control is broader than legal control, in particular, it includes de facto or effective control.
 - d. Whether one entity has control over another should be based upon an assessment of the present facts and circumstances.
42. The issue of latent control, in particular, potential voting rights, is to be discussed later in the project.
43. Another key issue not yet addressed is the application of the power element of the definition of control to special purpose entities (SPEs), in particular, situations in the financing and operating policies of the SPE are predetermined (that is, the SPE is on 'autopilot'). In this situation, it may be unclear whether the power element is satisfied. This issue will be addressed later in the project, when other related issues have been considered.
44. Other than the issues identified above, the staff does not plan to discuss the power element further. For example, the staff does not plan to consider the various power indicators or rebuttable presumptions that are contained in accounting standards. In the staff's view, such issues should be addressed at the standards-level, because they relate to applying the power element in practice. If the Boards disagree and believe that further discussion of the power element at the concepts level is necessary, the staff asks for the Boards' direction on which particular issues the Boards wish the staff to address.

The Benefits Element

45. In the working definition of control (paragraph 20), the power element is linked to a benefits element, whereby the controlling entity has power over the other entity "...so as to *access benefits* flowing from the entity and *increase, maintain or protect the amount of those benefits*" (emphasis added).

46. Even though most definitions of control include a benefits element, this element usually receives less attention than the power element. For example, the discussion of control in IAS 27 focuses on the power element. It is only in the context of SPEs, in SIC-12, *Consolidation—Special Purpose Entities*, that benefits become the focus.
47. There are two key questions relating to the benefits element:
- a. Are all types of benefits relevant, or only particular types of benefits?
 - b. Is there a minimum level of benefits required before control exists?

Types of Benefits

48. Most accounting definitions of control refer to *benefits*¹⁵ or to *economic benefits*¹⁶, rather than to specific types of benefits. Similarly, any accompanying explanatory material does not limit benefits or economic benefits to particular types of benefits. For example, the Canadian definition refers to economic benefits and provides examples comprising dividends, interest, fees, royalties, and profits on inter-company sales.¹⁷
49. There is an exception—the New Zealand definition of control refers more specifically to *ownership benefits*, which are stated to be “benefits equivalent to returns to an investor on or of an investment”.¹⁸ However, the term is used more broadly than might first be supposed, because ownership benefits encompasses not only distributions of earnings or net assets, but also other benefits from control over net assets (such as synergistic benefits), and benefits from complementary activities (such as the supply of goods or services to a third party that meets an operating objective of the parent).¹⁹
50. The term “ownership benefits” is used because the New Zealand standard adopts an “ownership form of control”. [Portion omitted from Observer Notes]. The standard distinguishes an “ownership form of control” from:
- a. Regulatory control, when a regulatory body has the authority to impose a specified form of compliance on the regulated entity’s operation.
 - b. Control of a purchase form, when there is a power, held as a consequence of a relationship involving the purchase of goods or services, to compel a supplier entity into a certain course of action.

¹⁵ For example, IAS 27, 1999 FASB ED.

¹⁶ For example, the SoP, UK FRS-2, and the Canadian Handbook (Section 1590).

¹⁷ CICA Handbook, Section 1590, paragraph .04.

¹⁸ NZ FRS-37, paragraph 4.29.

¹⁹ NZ FRS-37, paragraphs 4.32–4.35.

- c. Control of a lending form, when there is a power, held as a consequence of a lending relationship, to compel a borrower into a certain course of action.²⁰
51. Although the staff understands the rationale, the staff does not recommend using the term *ownership*, either in the context of the benefits element or to describe the definition of control itself. Using such a term might imply that, for one entity to have control over another, the first entity must have an ownership interest in that other entity. That would unnecessarily narrow the control concept, in the staff view.

Level of Benefits

52. In most cases, existing definitions of control do not specify any minimum level of economic benefits that is required to satisfy the benefits element of the control definition.²¹ There is one key exception, which is discussed below.²² [Portion omitted from Observer Notes].
53. [Paragraph omitted from Observer Notes].
54. As noted above, most definitions of control do not refer to any minimum level of benefits, and therefore adopt a broader concept of control than the approach suggested in paragraph 53. The key exception is control in the context of SPEs. Often, SPEs have predetermined financing and operating policies, which cannot be modified (i.e., the SPE operates on ‘auto-pilot’). In this situation, it might be doubtful whether the power element of the control definition is satisfied. Nevertheless, some accounting standards require consolidation of SPEs on grounds that focus on the benefits element rather than the power element. For example, as noted above, IAS 27 defines control as requiring both a power element and a benefits element, and its commentary focuses on the power element, while its related interpretation, SIC-12, focuses on benefits rather than power. In particular, the guidance in SIC-12 about when an entity controls an SPE refers to the *majority* of benefits. A similar notion is applied in FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*, which requires consolidation of a variable interest entity (VIE) in specified circumstances, including when the parent lacks the ability (through voting rights or similar rights) to make decisions about the VIE’s activities that have a significant effect on the success of the VIE, but is the *primary beneficiary* of the VIE.

²⁰ NZ FRS-37, paragraph 4.15.

²¹ For example, the SoP, IAS 27, UK FRS-2, and the Canadian Handbook (Section 1590).

²² There also is another exception: the definition of control in NZ FRS-37 refers a *significant* level of ownership benefits. However, the staff understands that this word was included on the grounds of materiality.

55. Issues relating to applying the control concept in the context of SPEs will be addressed later in the project phase, as explained earlier (paragraph.
56. In the meantime, leaving aside the issue of SPEs, the staff finds no reason for requiring that the control definition include reference to a minimum level of benefits. [Portion omitted from Observer Notes].

Questions for the Boards

57. Do the Boards agree that control, in the context of control of another entity, should be defined at the concepts level?
58. Do the Boards agree that the definition of control should contain both a power element and a benefits element, together with a link between the two, along the lines set out in the working definition in paragraph 20?
59. Do the Boards agree that the conceptual framework should explain that determining whether one entity has control over another entity involves an assessment of all the facts and circumstances; there is no single fact or circumstance that evidences that an entity has control over another entity in all cases, nor should one particular fact or circumstance—such as ownership of a majority voting interest—be regarded as a necessary condition for control to exist?
60. With regard to the power element, do the Boards agree that:
- a. Power relates to the entity's *financing and operating policies*?
 - b. Power is *non-shared*?
 - c. *The ability* to direct the financing and operating policies of the other entity is sufficient; hence, in concept, control is broader than legal control, in particular, it includes de facto or effective control?
 - d. Whether one entity has control over another should be based upon an assessment of the present facts and circumstances, and therefore the control concept should not exclude situations in which control might be temporary?
61. With regard to the benefits element, do the Boards agree that:
- a. The control definition should refer broadly to benefits or economic benefits, rather than specific types of benefits?
 - b. Leaving aside the issue of SPEs, the control definition should not specify a minimum level of benefits?

62. Other than the issues identified to be addressed later in the project (for example, potential voting rights and application of the control definition to SPEs), are there any other issues that the Boards wish to consider for the purposes of defining control at the concepts level?

FASB DISCUSSIONS

63. The FASB discussed the above issues at its meeting on 5 April. The Board agreed that control should be defined in the conceptual framework. Board members generally agreed with the definition of control proposed by the staff, in particular, that the definition should include both a power element and a benefits element, together with a link between the two.
64. In general, Board members agreed with the other, more specific, staff recommendations set out above. However, when the issue of latent control (including potential voting rights) is considered later in the project phase, Board members asked the staff to consider the interaction between that issue and some of the other staff proposals above, regarding de facto or effective control and the non-sharing of control.
65. Board members also noted that the larger issue of whether to use control, or a broader or different concept to determine the boundaries of a group reporting entity is still to be addressed. Some Board members expressed a preference for a risks and rewards model while some prefer a control model. It was also suggested that staff consider whether a risks and rewards model could be reconciled with a control model.

CROSS-CUTTING ISSUES FOR THE REPORTING ENTITY PROJECT PHASE

- RE1: When is a legal entity, or an economic unit, a reporting entity? (e.g., branch versus entity, business versus entity) Are there two questions—what is an entity and what is a reporting entity?
- RE2: Aggregation versus disaggregation—which is the most useful information? For example, when should a legal entity be divided into several reporting entities? When should consolidation occur?
- RE3: What is the purpose of consolidated accounts? Why do some jurisdictions require parent-only financial statements, others require consolidations, and yet others may want combinations?
- RE4: Is control the right basis for consolidation?
- RE5: What does control over an entity mean? Should this be defined at the concepts level or at the standards level?
- RE6: Is there a difference between control over an entity and control over assets? Which should provide the basis for consolidation?
- RE7: Joint ventures—concept of joint control; joint control over entity or assets? What about ‘significant influence’—how does that fit in with the control concept?
- RE8: Does it matter if an entity has control of another entity today but might lose control later (e.g., control today only because of dispersion of other shareholdings)? What if an entity does not have control today, but could gain control of another entity tomorrow (e.g., by exercise of an option)?