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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

Board Meeting: 12 December 2006, London

Project: Conceptual Framework

Subject: Phase D: Reporting Entity—Status, Outstanding Issues and Next Step (Agenda Paper 8)

Introduction

1. The purpose of this paper is to:
 - a. Outline the current status of the reporting entity phase (Phase D) of the conceptual framework project, including asking for the Boards' direction on when to readdress some issues for which the Boards have reached differing preliminary views.
 - b. Introduce some outstanding issues to be discussed at the Boards' respective December meetings.
 - c. Discuss the next step in the project phase, including the staff working draft of the first due process document.

Current status

2. The Boards have considered all eight cross-cutting issues for the project phase (listed in the appendix).
3. However, they have reached different decisions on two key issues:

- a. The relationship between the parent entity and group entity, in particular, whether the parent entity and group entity are one and the same entity, or two different entities.
 - b. The composition of a group entity, in particular, whether a group entity should comprise a controlling entity and other entities under its control, or whether the control concept should be extended such that a group entity could also comprise two or more entities under common control (i.e., without including the parent entity in the group).
4. The staff has commenced drafting a Discussion Paper, as the first due process document for the project phase. [Sentence omitted from Observer Notes].
Given that the Boards do not have a converged position on the above issues, the question is whether it is necessary or advisable to continue discussing these issues now, to try to reach a converged position, or wait until the Boards have the benefit of constituent feedback before doing so.
 5. [Paragraph omitted from Observer Notes].

Question for the Boards

6. Do the Boards want to discuss again now the issues upon which they disagree? Or do the Boards agree with the staff view that it is not necessary to reach a common view on these issues now, for the purposes of the first due process document?

Outstanding issues

Parent company approach

7. In addition to the cross-cutting issues listed in the appendix, there is another issue that the Boards have not yet addressed. That issue is whether the parent company approach to the preparation of consolidated financial statements should be part of the discussion of the reporting entity concept. That issue is addressed in IASB Agenda Paper 8A, FASB Memorandum 45.

Consistency with decisions reached in the IASB's consolidations project

8. As requested by the Boards, the staff has considered whether there are any inconsistencies between the decisions reached by the Boards in the reporting entity phase of the conceptual framework project and the IASB's decisions in its

consolidations project. That issue is addressed in IASB Agenda Paper 8B, FASB Memorandum 46.

Next step

9. Assuming that the Boards' discussions at their respective December meetings do not give rise to further issues to be addressed, the next step in the project phase is to publish a Discussion Paper upon which to invite public comment. [Sentences omitted from Observer Notes].
10. The format of the document is similar to a traditional Discussion Paper, rather than as a draft of the reporting entity chapter of the framework, and therefore will not have a separate Basis for Conclusions. The document discusses various issues, different viewpoints on those issues, and concludes with the Boards' preliminary views on issues that have been agreed upon. For issues upon which the Boards have not agreed a preliminary view, an indication of various Board members' views is (or will be) given. [Sentences omitted from Observer Notes].
11. The staff working draft of the Discussion Paper is provided mainly for information purposes. The staff is not requesting drafting comments at this time since there is more work to be done on the document before that would be a worthwhile effort for Board members. However, the staff would welcome substantive comments on the planned content, such as whether there are any major omissions of issues or viewpoints that require discussion.

APPENDIX

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? Could (or should) a parent-only entity be a reporting entity, that is, the subject matter of GPEFR? (The last question was added in December 2005).
- 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)?