

**International
Accounting Standards
Board**

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This document is provided as a convenience to observers at the Global Preparers Forum meeting, to assist them in following the discussions. It does not represent an official position of the IASB. Board positions are set out in Standards.

Note: These notes are based on the staff papers prepared for the GPF meeting. Paragraph numbers correspond to paragraph numbers used in the GPF agenda paper.


INFORMATION FOR OBSERVERS

**GPF Meeting: November 2008, London
Project: Consolidation**

(Agenda Paper 4A)

November 2008


International Financial Reporting Standards



Consolidation
Global Preparers Forum
Agenda paper 4A

The views expressed in this presentation are those of the presenter, not necessarily those of the IASC Foundation or the IASB

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Overview 2


The project

- to develop a cohesive control based model that encompasses structured financing and investment vehicles, replacing both:
 - IAS 27 *Consolidated and Separate Financial Statements*
 - SIC-12 *Consolidation – Special Purpose Entities*

Our premise

- IAS 27 and SIC-12 are not fundamentally flawed, but:
 - we have concerns that they are not being applied consistently, and
 - there is a tension between the IAS 27 control model and the risk and reward emphasis in SIC-12

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Objectives of a revised IFRS 3


Recognition

- improve the comparability of financial statements, by providing:
 - clearer (and more explicit) principles; and
 - additional application guidance than is provided in IAS 27 and SIC-12)

Disclosure

- Improve the quality of information that is available to users about the entities that (correctly), are not consolidated but which create risks for the reporting entity.


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IFRS – US GAAP convergence 4

- FASB project to revise FAS 140 and FIN 46(R)
 - FASB exposure drafts published in September 2008
- Close co-operation between IASB and FASB staff
- Boards will discuss whether to work towards a joint standard in 2009

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Control of an entity 5


Control

- A reporting entity controls another entity when the reporting entity has the **power** to direct the activities of that other entity to generate **returns** for the reporting entity.

Characteristics of control

- Current
- Not shared (exclusive)
- Continuous assessment

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Control of an entity continued 6


Power to direct activities

- Power to direct the activities that have the most significant effect on the returns of an entity
 - Ability to determine the strategic operating and financing policies
 - Control of governing body
 - Statute or agreement
 - Contractual arrangements
 - Eg structured entities

Returns

- Positive and negative
- Vary with the activities of the entity

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The credit crunch

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The current focus on SIVs and the sub-prime crisis has put more pressure on the project

- Timing
- Reputational risk
 - is this a factor that should be considered in deciding whether one entity should consolidate another entity?
- Disclosure
 - are the current disclosure requirements adequate?



Timing

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November 2008

- Target publication date for an ED

Second Half 2009

- Target publication date for an IFRS

