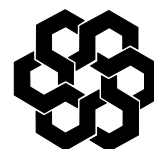




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This document is provided as a convenience to observers at the joint IASB-FASB meeting, to assist them in following the Boards' discussion. It does not represent an official position of the IASB or the FASB. Board positions are set out in Standards (IASB) or Statements or other pronouncements (FASB).

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

INFORMATION FOR OBSERVERS

IASB/FASB Meeting: 20 October 2008, Norwalk
Project: Consolidation
Subject: Cover note (Agenda Paper 3)

OBJECTIVE OF THIS MEETING

- 1 The FASB has published an exposure draft proposing amendments to FASB Interpretation No. 46(R). The IASB expects to publish an exposure draft of an IFRS to replace IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Special Purpose Entities* in November.
- 2 The IASB held an education session at its October meeting at which its Board was briefed on the FIN 46(R) amendments. The IASB also discussed the most recent draft of its exposure draft. That draft is Agenda Paper 3A (originally agenda paper 13A at the IASB only meeting). Although that draft will change, it provides an indication of the direction the IASB is heading.
- 3 The September 2008 report on progress of the MoU states that the Boards will implement work aimed at the completed development of converged consolidation

standards as a matter of high priority. To that end, the Boards expect to make a decision in 2008 on if a strategy to develop a common standard is warranted at this time.

- 4 The purpose of the session at the joint meeting is to help the Boards assess the feasibility of developing common standards.

THE MODELS

Scope

- 5 The scope of FIN 46(R) is limited to variable interest entities (VIEs). In contrast, the IASB proposal covers all entity types. To use FASB language, the IASB model covers voting interest entities (covered by ARB 51) and VIEs. The IASB model anticipates that a reporting entity can control a voting interest entity even if it does not have a majority of the voting interests. There are also circumstances in which a reporting entity would not control even though it does have more than half of the voting interests.

Control

- 6 The definition of a controlling financial interest in the proposed FIN 46(R) is, in our view, qualitatively the same as the proposed definition of control of an entity in the IASB proposal. The differences in wording are due mainly to the fact that the FIN 46(R) definition is designed for a VIE whereas the IASB definition applies to all entity types (ie including voting interests). Unfortunately, despite the similarities, we think that the differences in scope make it difficult for one Board to simply substitute their definition with that of the other Board. For example, the fees a reporting entity receives to set up a securitisation vehicle are a variable interest in FIN 46(R), and therefore part of the scope definition, whereas they represent benefits in the proposed IFRS and therefore part of the definition of control—the fees are also benefits to be considered in determining the controlling financial interest in the proposed FIN 46(R).
- 7 The IASB draft does not have a quantitative test of the nature proposed in the FASB model. This might not, however, be a fundamental difference. The examples provided in the proposed FIN 46(R) are all resolved using the qualitative test. If that

qualitative test proves to be sufficient, and the FASB decides to remove it, the IASB and FASB models will be similar (putting aside voting interest entities).

- 8 The IASB staff has been assessing the nine FASB examples using the IASB model. We should be able to provide a preliminary assessment at the session, at least to the extent of identifying possible differences in outcome.

Disclosure

- 9 Our assessment is that the disclosure requirements are similar. The reality is that we each updated our proposals as the drafting progressed, so this should not be a surprise. We suspect, however, that there will be application differences because of the scope differences. For example, the IASB proposal does not have the concept of a 'primary beneficiary', to which some FIN 46(R) disclosure requirements relate.

COMMON REQUIREMENTS

- 10 Our initial assessment is that the single biggest barrier to common requirements stems from the IASB having a more general model that applies to all entity types whereas the FAS model has been developed for VIEs. We see this as a barrier because the FIN 46(R) language is more specific to VIEs than is the language in the proposed IFRS.
- 11 If the Boards want to use the same words in common standards we think this is more likely to be achieved if the FASB moves to a more generic model. For completeness, the FASB staff does not believe that its guidance for voting interest entities has been an issue in practice. The alternative is to retain our different approaches and use examples to demonstrate that, despite the differences in wording, the two models have the same outcomes (once any differences in outcome have been resolved). A decision on whether the Boards should seek to issue separate or joint guidance may also be dictated by constituent needs/requests and the timeliness of completion.