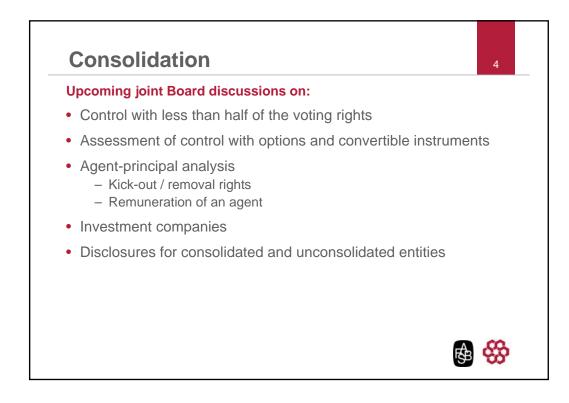


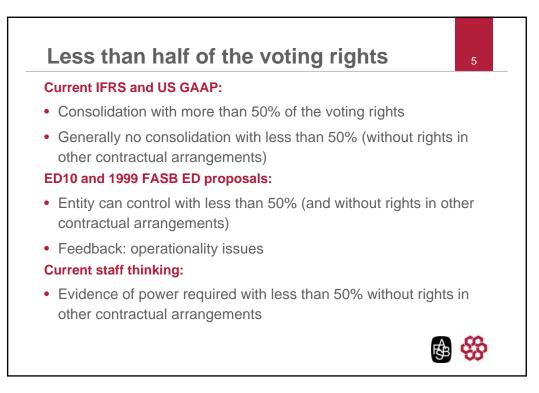
The control model

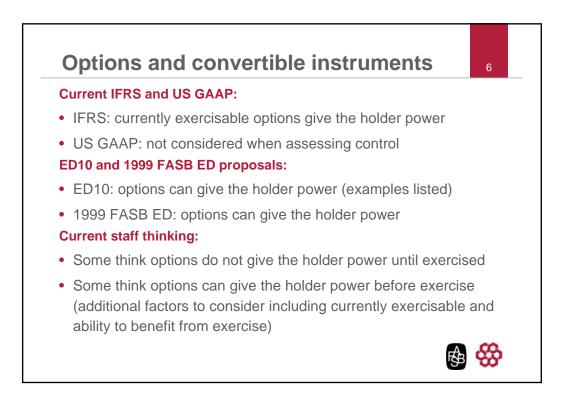
Main decisions to date by both boards

- Control is the basis of consolidation
- Exposure to risks and rewards is an indicator of control
- Substantive participating rights (if sufficient) give a party power—could be voting rights, rights within other contractual arrangements, or a combination of these
- When multiple parties have unilateral decision-making authority over different activities, the party that has the ability to direct the activities that *most* significantly affect the returns meets the power element of the control definition
- When multiple parties share decision-making about the activities of the entity (and each party must consent to those decisions), no one party controls the entity [this is joint control in IFRS]











Current IFRS and US GAAP:

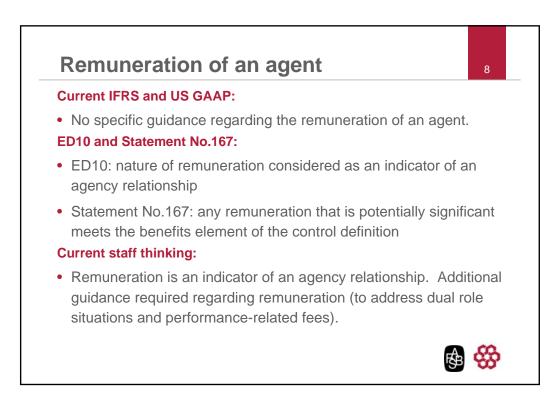
- IFRS: no specific guidance regarding kick-out rights
- US GAAP: guidance regarding substantive kick-out rights

ED10 and Statement No.167:

- ED10: removal (kick-out) rights considered as an indicator of an agency relationship
- Statement No.167: substantive kick-out rights exercisable by one party considered when assessing control

Current staff thinking:

- Some think kick-out rights must be exercisable by only one party to be substantive
- Some think there could be circumstances for which kick-out rights indicate an agency relationship (to be consider together with remuneration)



Investment companies

Current IFRS and US GAAP:

• IFRS: controlled investments consolidated by investment companies

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• US GAAP: controlled investments at fair value for investment companies

ED10:

- ED10: no change to current requirements
- Feedback from users: fair value provides the best information
- Input from the industry: proposals to define an investment company

Current staff thinking:

- On the basis of input from users, consider fair value reporting for investments controlled by investment companies (list of strict criteria defining an investment company)
- Also, a view may exist that investment companies should be subject to the consolidation guidance – no exception