

30 Cannon Street, London EC4M 6XH, England Phone: +44 (0)20 7246 6410, Fax: +44 (0)20 7246 6411 Email: iasb@iasb.org Website: http://www.iasb.org

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: March 2009, London

Project: ED 10 Consolidated Financial Statements

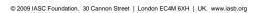
(Agenda Paper 4)



International Financial Reporting Standards



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





Why a project on consolidation?

Inconsistencies in practice

- Tension between the IAS 27 control model and the risk and reward emphasis in SIC-12
- · Concerns that they are not being applied consistently

Credit crisis

- Timing
- Are the consolidation requirements for structured entities sufficient?
- Should reputational risk be a basis for consolidation?
- · Are the current disclosure requirements adequate?



The consolidation project

Objectives

- 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
- Provide clearer (and more explicit) principles of control and additional application guidance
- Provide information about structured entities that (correctly) are not consolidated but which create risks for the reporting entity
- Improve disclosures about restrictions on the assets and liabilities of the group

600

© 2009 IASC Foundation. 30 Cannon Street | London EC4M 6XH | UK. www.iasb.org

The consolidation project

What does not change

- No change to the consolidation procedures or accounting when obtaining control (IFRS3 revised in 2008) or on loss of control (IAS27 revised in 2008)
- No change to the requirement to prepare consolidated financial statements eg no specific consolidation exemption for investment companies
- IAS27 will "survive", but will deal only with the preparation of separate financial statements



5

Control of an entity

Definition

 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

Power to direct activities

- Voting rights (eg governing body)
- · Options or convertible instruments to obtain voting rights
- · Contractual arrangements
- · A combination of these

Returns

- · Vary with the activities of the controlled entity
- · Can be positive or negative

© 2009 IASC Foundation. 30 Cannon Street | London EC4M 6XH | UK. www.iasb.org



6

Control of an entity

Control with less than a majority of voting rights

- More voting rights than others and sufficient to determine the strategic operating and financing policies
- Options and convertible instruments
- · Other arrangements

Agent/principal relationship

• Dual role (holding voting rights directly and on behalf of others as an agent)



Structured entities

- A structured entity is an entity whose activities are restricted to the extent that those activities are not directed by traditional means (eg by its governing body)
- · Apply control definition and identify power and returns
- Consider all facts and circumstances including:
 - Purpose and design
 - Returns (eg exposure to variability of returns)
 - Activities (eg are some or all(?) policies pre-determined?)
 - Related arrangements
 - Ability to change restrictions or pre-determined policies
 - Agents

© 2009 IASC Foundation. 30 Cannon Street | London EC4M 6XH | UK. www.iasb.org



Disclosures

8

Disclose information that enables users to evaluate:

- the basis of control and the related accounting consequences
- the interest that the non-controlling interests have in the group's activities
- the nature and financial effect of restrictions that are a consequence of assets and liabilities being held by subsidiaries
- the nature of, and risks associated with, the reporting entity's involvement with structured entities that the reporting entity does not control



Exposure draft

Ways to participate

- Comments on the ED can be submitted until 20th March 2009
- Further round tables after the end of the comment period

Next steps

- Publication date for an IFRS (second half of 2009)
- Co-operation with the FASB

© 2009 IASC Equindation 30 Cannon Street | London EC4M 6XH | LIK | www.iash.or



10

Questions or comments?

International Accounting Standards Board First Floor, 30 Cannon Street London EC4M 6XH

Tel.: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411

Patrina Buchanan Project Manager pbuchanan@iasb.org

Michael Buschhueter Project Manager mbuschhueter@iasb.org



