

Project **Consolidation**Topic **Cover note**

Introduction

1. The Board published ED10 *Consolidated Financial Statements* in December 2008; the comment period ended on 20 March 2009. The staff presented a summary of comments received from the 148 respondents to the exposure draft at the May 2009 Board meeting, and we held round table meetings in Toronto, Tokyo and London in June 2009.
2. The Board commenced deliberations of the control model in ED10 in July 2009, taking into account comments received from respondents to ED10 and from participants at the round table meetings. At that meeting, the Board tentatively decided that:
 - (a) control, defined to require a reporting entity to have both the power to direct the activities and the ability to benefit from that power, is the only basis for consolidation.
 - (b) exposure to risks and rewards alone does not constitute control. Exposure to risks and rewards is an indicator of control because the greater a reporting entity's exposure to risks and rewards from its involvement with an entity, the greater the incentive for the reporting entity to obtain rights sufficient to give it the power to direct the activities of an entity.
 - (c) reputational risk does not give a reporting entity the power to direct the activities of an entity. However, the existence of reputational risk can give a reporting entity an incentive to control another entity.

This paper has been prepared by the technical staff of the IASCF for discussion at a public meeting of the IASB. The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IASB.

Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRIC or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in IASB *Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

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- (d) if a reporting entity holds less than half of the voting rights of an entity, the reporting entity can have the power to direct the activities of that entity, depending on the circumstances.
 - (e) if a reporting entity holds options or convertible instruments to obtain voting rights in an entity, the reporting entity can have the power to direct the activities of that entity.
3. The Board also decided that power with less than half of the voting rights, and options and convertible instruments, would be discussed further at future Board meetings.

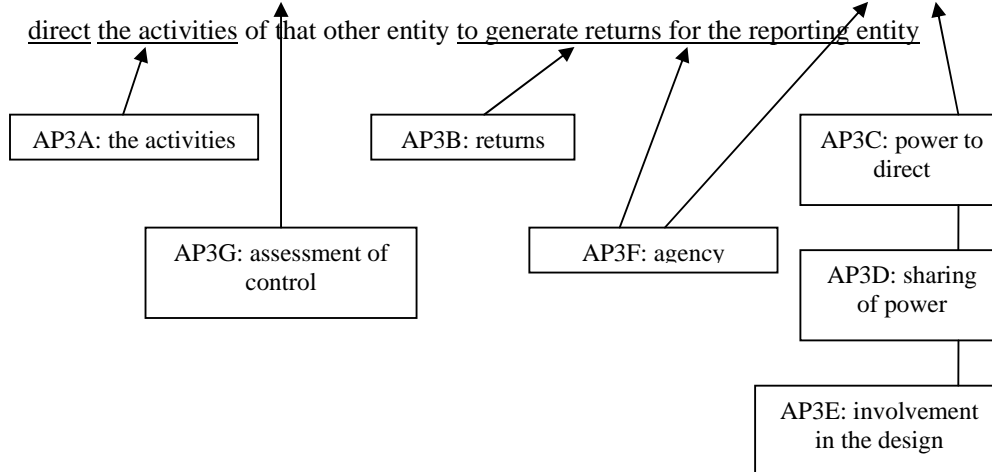
Papers to be discussed at this meeting

4. The papers to be discussed at this meeting relate to the control model:
- (a) Agenda paper 3A: The activities of an entity
 - (b) Agenda paper 3B: Returns
 - (c) Agenda paper 3C: Power to direct: protective and participating rights
 - (d) Agenda paper 3D: The sharing of power
 - (e) Agenda paper 3E: Involvement in the design of an entity
 - (f) Agenda paper 3F: Agency relationships
 - (g) Agenda paper 3G: Continuous assessment of control

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5. A pictorial view of the aspects of the control definition to be discussed is as follows:

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



6. Each of the agenda papers for the IASB October meeting (agenda papers 3A-3G) includes questions for the Board. Bearing in mind that the IASB and FASB will discuss conducting their respective consolidation projects jointly at the October joint meeting, we do *not* expect the IASB to reach final decisions on all questions, particularly on those for which the staff recommends an approach that is different from the FASB's conclusions published in *SFAS 167 Amendments to FIN No.46(R) Consolidation of Variable Interest Entities* in June 2009. Rather, we are keen to get an indication of the Board's thinking regarding those particular issues.

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Next steps

7. As noted above, the consolidation project will be discussed at the IASB/FASB October 2009 meeting in the context of conducting the boards' respective projects jointly.
8. We plan to bring papers on the following topics to the Board for discussion in the coming months:
 - (a) The control model
 - (i) Power with less than half of the voting rights in an entity
 - (ii) Options or convertible instruments to obtain voting rights
 - (b) Disclosures
 - (i) Consolidated entities
 - (ii) Unconsolidated entities
 - (c) Investment companies
 - (d) Transition