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

Introduction

1. The IASB published ED10 *Consolidated Financial Statements* in December 2008. ED 10 addresses consolidation of all entities.
2. The FASB published Statement No.167, *Amendments to Interpretation No.46(R)*, in June 2009. Statement No.167 addresses consolidation of variable interest entities.
3. At their joint meeting in October 2009, the IASB and the FASB agreed to develop their respective consolidation projects together with the objective that the FASB would be in a position to publish an exposure draft in Q2 2010 and the IASB would publish a final standard after it has considered, with the FASB, comment letters that the FASB receives on its proposals.
4. The staff believe that the consolidation models that each Board has been developing are similar in the following ways:
   (a) Control is the basis for consolidation in both Statement No.167 and ED10. Both documents define control as having two elements—a power element and a returns or benefits/losses element. An entity controls another entity when it has both the power to direct the activities of that other entity and the ability to benefit from that power. Benefits include the ability to mitigate losses in situations in which a reporting entity has the obligation to absorb losses of an entity.

(b) An entity must have some exposure to risks and rewards (or variable returns) in order to control another entity. The level of exposure to risks and rewards may be an indicator of control. However, exposure to a particular level of risks and rewards without any power to direct the activities does not equate to control. Similarly, control does not equate to having the power to direct the activities of an entity without any variable returns (or without a variable interest). However, the reporting entity with "power" would usually be expected to have some exposure to risks and rewards.

(c) Power is used to mean 'ability'—an entity meets the power element when it has the current ability to direct the activities of another entity. Power also need not be absolute in that protective rights held by other parties do not preclude an entity from controlling another entity.

(d) The returns or benefits/losses element of both models require the controlling entity to receive or be exposed to variable returns from its involvement with (or have a variable interest in) the controlled entity. The returns element can be either positive or negative. ED10 describes returns broadly to include, for example, synergistic returns.

(e) Substantive participating rights give a party power—those rights could be voting rights, rights within other contractual arrangements, or a combination of these.

(f) 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.

(g) 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).

Papers to be discussed at this meeting

5. The papers to be discussed at this meeting relate to the control model and address all of the remaining issues to be discussed with the boards regarding the control model:

   (a) Agenda paper 3A: Control through voting rights (including the holding of less than a majority of the voting rights in an entity)

   (b) Agenda paper 3B: Options and convertible instruments

   (c) Agenda paper 3C: Kick-out rights

   (d) Agenda paper 3D: Agency relationships

Next steps

6. We plan to bring papers on the following topics to the boards for discussion in February and March 2009:

   (a) The control model

      (i) Agency relationships (follow-up to agenda paper 3D to be discussed at this meeting)—to include a discussion regarding related parties

   (b) Disclosures

      (i) Consolidated entities

      (ii) Unconsolidated entities

   (c) Investment companies

   (d) Transition

7. We will also bring a paper to you to discuss both of the following on the basis of decisions made by the boards at this and future meetings:

   (a) the scope of the FASB exposure draft (ie whether the exposure draft would address consolidation of all entities, incorporating the guidance in Statement No.167 for variable interest entities)

(b) the format of the IASB's future publications regarding consolidation (whether the IASB plans to post a near-final draft of the final consolidation standard at the same time as the FASB publishes its exposure draft, noting that the IASB will need to consider whether it should re-expose any aspect of the project).