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www.drsc.de - info@drsc.de

DSR – öffentliche SITZUNGSUNTERLAGE

DSR-Sitzung:	**146. / 02.07.2010 / 13:45 – 15:45 Uhr**
TOP:	**06 – Consolidation (IASB)**
Thema:	**Vorstellung und Diskussion des aktuellen Projektstandes**
Papier:	**146_06b_Con_Redeliberations**

ÜBERBLICK ÜBER BISHERIGE BERATUNGEN UND VORLÄUFIGE ENTSCHEIDUNGEN DES IASB

STAND 21.06.2010

June 2010 (Additional Joint Meeting)

The IASB and FASB discussed the disclosure requirements for consolidated subsidiaries and unconsolidated structured entities. The boards tentatively decided that the final disclosure requirements should include a list of disclosure objectives. Specifically, the boards decided that a reporting entity should disclose information that helps users of financial statements to understand:

a. the significant judgements and assumptions (and changes to those judgements and assumptions) made by the reporting entity in determining whether it controls (or does not control) another entity, and/or in determining the reporting entity's involvement with structured entities;
b. the interest that the non-controlling interests have in the group's activities;
c. the effect of restrictions on the reporting entity's ability to access and use assets, or to settle liabilities of consolidated entities, when these restrictions are as a result of where the assets or liabilities are held in the group;
d. the nature of, and changes in, the risks associated with the reporting entity's control of consolidated structured entities or from its involvement with unconsolidated structured entities.

To achieve these objectives, in addition to the disclosures discussed at previous meetings, the boards tentatively decided to require a reporting entity to disclose the following information:

a. When a reporting entity has an arrangement that might require the reporting entity to provide financial support to a consolidated structured entity (for example, liquidity arrangements and obligations to purchase assets), the reporting entity should disclose the terms of the arrangement, including any possible events or circumstances that could expose the reporting entity to a loss.

b. When a reporting entity is involved with unconsolidated structured entities, the reporting entity should disclose:

   i. the carrying amount of the assets and liabilities recognised in the reporting entity's consolidated financial statements relating to the involvement;
   ii. the line items in the consolidated statement of financial position in which those assets and liabilities are recognised;
   iii. the amount that best represents the reporting entity's maximum exposure to loss from that involvement, including how the maximum exposure to loss is determined. (If a reporting entity cannot quantify its maximum exposure to loss from its involvement with unconsolidated structured entities it must disclose that fact); and
   iv. a comparison of the carrying amount of the assets and liabilities of the reporting entity that relate to the reporting entity's involvement with unconsolidated structured entities with the reporting entity's maximum exposure to loss.

The boards asked the staff to conduct further research on the scope of these disclosure requirements for involvement with structured entities, and asked the staff to determine whether the disclosures required for involvement with structured entities should apply to involvement with all entities.

The IASB completed discussions about the disclosure requirements for a reporting entity that meets the proposed definition of an investment company. The Board tentatively decided to include a requirement for an investment company to present a financial highlights schedule in the notes to the financial statements. This schedule would present per share investment income or loss, realised and unrealised gains and losses per share, distributions to shareholders, purchase premiums, redemption fees, payments by affiliates, expense and net investment income ratios, total return and capital commitments.

May 2010 (Joint Meeting)

Investment companies

The IASB and the FASB decided:

- a decisionmaker should assess whether it controls regulated funds that it manages. It should make this assessment by using the agency guidance that applies to all decision-makers that have been delegated decision-making authority. Consequently, there is no need to include specific guidance for regulated funds.
- when preparing its consolidated financial statements, the parent of an investment company (if it is not an investment company itself) shall be prohibited from retaining the fair value accounting that is applied by an investment company subsidiary to that investment company's controlled investees.

Accordingly, a parent of an investment company is required to consolidate all entities that it controls, including those that are controlled by an investment company subsidiary, unless that parent is an investment company itself. The boards confirmed their previous tentative decision that an investment company should be required to measure investment in entities that it controls at fair value through profit or loss. Refer to IASB Update 19-23 April 2010 regarding the criteria to be considered an investment company. The boards will discuss separate presentation and transition at future meetings.

The IASB tentatively decided:

- to replace the list of entities referred to in paragraph 1 of IAS 28 *Investments in Associates* and paragraph 1 of IAS 31 Interests in Joint Ventures with the proposed criteria for an investment company that have been developed within the consolidation project. An investment company would be required to measure investments in associates and joint ventures at fair value through profit or loss.
- that it would not address the timing issue faced by investment companies that are first-time adopters of IFRS in 2011. The timing issue is set out in agenda paper 12B which was also discussed at this meeting.

The IASB asked the staff to conduct further research to identify whether the decision to replace the list of entities referred to in paragraph 1 of IAS 28 and paragraph 1 of IAS 31 would restrict the number of entities currently applying the scope exemption set out in those paragraphs. The Board also tentatively decided that:

- a parent of an investment company, on consolidating that investment company subsidiary, would be required to retain the fair value accounting applied by the investment company subsidiary to investments that it does not control, including investments in associates and joint ventures.

Transition (revised consolidation requirements)

The IASB discussed the transition guidance for situations in which applying the revised consolidation requirements results in a reporting entity consolidating an entity that was previously not consolidated. The Board tentatively decided that a reporting entity should measure the assets, liabilities and noncontrolling interests of a previously unconsolidated subsidiary as if that subsidiary had been consolidated from the date when the reporting entity obtained control of the subsidiary, on the basis of the revised consolidation requirements. A ternatively, if this was impracticable, the reporting entity should apply the acquisition method in IFRS 3 *Business Combinations* at the beginning of the earliest period for which application of those requirements is practicable.

The Board also discussed the transition guidance for situations in which applying the revised consolidation requirements results in a reporting entity no longer consolidating an entity that was previously-consolidated. The Board tentatively decided that a reporting entity should measure the interest in a previously-consolidated entity as if the reporting entity had accounted for that interest from when it first became involved with, or no longer had control of, the entity. Alternatively, if this was impracticable, the reporting entity should derecognise the assets, liabilities and non-controlling interests of the previously-consolidated entity, and recognise any interest in the entity at fair value at the beginning of the earliest period for which application of those requirements is practicable.

The Board tentatively decided to permit early application of the revised consolidation requirements.

Separate presentation of consolidated assets and liabilities

US GAAP currently requires a reporting entity to present those assets of a consolidated variable interest entity (VIE) that can only be used to settle obligations of the consolidated VIE on the statement of financial position separately from those liabilities of a consolidated VIE for which creditors (or beneficial interest holders) do not have recourse to the general credit of the reporting entity.

The Board tentatively decided not to require such separate presentation of consolidated assets and liabilities. The Board asked the staff to investigate whether it would be useful to require disclosure of restrictions on the reporting entity's ability to access the cash flows of consolidated assets that can be used only to settle particular liabilities. This will be discussed at the next joint board meeting.

<u>Update Additional Joint Meeting May 2010</u>

The IASB and the FASB discussed the overall disclosure principles, disclosures for consolidated subsidiaries, disclosures for unconsolidated structured entities and the disclosures related to investment companies.

In March 2010, the boards tentatively decided that a reporting entity should disclose information that helps users of financial statements to understand the nature of, and changes in, the risks associated with the reporting entity's involvement with other entities and how those risks affect future cash flows. At the meeting on 4 May, the boards clarified that for disclosure purposes a reporting entity has an involvement with a structured entity when the reporting entity is exposed to variability of returns from its involvement with the structured entity.

The boards discussed whether a reporting entity should disclose (a) income from its involvement with structured entities that it has set up or sponsored and (b) the fair value of assets recognised by those structured entities at the time that the structured entities are established. The IASB tentatively decided that, subject to further drafting changes, these disclosures should be included in the disclosure standard. The FASB tentatively decided not to specifically require such disclosures, but that the disclosure related to the income from the entity's involvement with structured entities that it has set up or sponsored should be covered by the overall disclosure principles. The boards discussed but did not reach any decisions on the overall disclosure principles or the disclosures for subsidiaries. The boards will continue their discussion at their next meeting.

The boards also discussed the disclosure requirements for investment companies. The boards tentatively decided that an investment company should disclose:

a. whether it has provided any financial or other support to any of its controlled investees that it was not previously contractually required to provide; and
b. the nature and extent of any significant restrictions on the ability of its controlled investees to transfer funds to the investment company.

The boards also tentatively agreed that an investment company should not be required to present summarised financial information for controlled investments. The IASB will discuss at a future meeting whether an investment company should provide additional disclosures about the investees, similar to the current disclosure and presentation requirements in US GAAP for investment companies.

April 2010

At their February 2010 joint board meeting, the IASB and the FASB tentatively decided that an investment company should measure its investments in entities that it controls at fair value through profit or loss.

At this meeting, the boards continued to deliberate the definition of an investment company, and tentatively decided that an investment company is an entity that meets all of the following criteria:

- *Express business purpose*. The express business purpose of an investment company is investing for current income, capital appreciation, or both.
- *Exit Strategy*. The entity has identified potential exit strategies and a defined time (or range of dates) at which it expects to exit the investment.

- *Investment activity*. Substantially all of the entity's activities are investment activities carried out for the purposes of generating current income, capital appreciation, or both. The entity and its affiliates shall not obtain benefits from its investees that would be unavailable to other investors or unrelated parties of the investee.
- *Unit ownership*. Ownership in the entity is represented by units of investments.
- *Pooling of funds*. The funds of the entity's owners are pooled so that owners can avail themselves collectively of professional investment management.
- *Fair value*. All of the investments are managed, and their performance is evaluated (both internally and externally), on a fair value basis.
- *Reporting entity*. The entity must be a reporting entity.
- *Debt*. Any providers of debt to the investees of the entity shall not have direct recourse to any of the entity's other investees.

The boards asked the staff to clarify some aspects of the criteria when they undertake further drafting. In particular, the boards asked that it should be made clear that significant third party investment is required for an entity to be an investment company. The boards also tentatively decided that the fair value measurement basis for controlled investees applied by an investment company should be retained in the consolidated financial statements of a parent of an investment company.

Transition requirements

The FASB tentatively decided that an entity currently applying the investment company guidance in Topic 946 of the Accounting Standards Codification *Financial Services - Investment Companies* should discontinue the application of this guidance if the entity no longer qualifies as an investment company. This change should be applied prospectively as from the date when the revised consolidation requirements are first applied. For those investees that are required to be consolidated as a result of an entity no longer qualifying as an investment company, the entity should apply the same transition guidance as for all other entities that will be required to be consolidated as a result of the revised consolidation requirements.

Both the IASB and the FASB tentatively decided that an entity that was not previously considered an investment company, but that meets the new definition of an investment company, should recognise its investments in entities that it controls at fair value on the date that it first applies the revised consolidation requirements, with an adjustment made to retained earnings.

Disclosure

The boards did not have the opportunity to discuss any of the consolidations papers related to disclosure. Those papers will be rescheduled.

March 2010

The Board discussed consolidations in three separate sessions, all of which were held jointly with the FASB.

The *control* model

The IASB and the FASB continued to deliberate the control model being developed for the purposes of determining when one entity should consolidate another, and discussed the following topics:

- When assessing control of an entity controlled by voting rights, when are a reporting entity’s voting rights sufficient to give it the ability to direct the activities of the entity?
- How to determine whether a decision maker is an agent or a principal.

- Whether the involvement and interests of related parties should be considered to be those of the reporting entity.
- The description of a structured entity.

The boards tentatively decided:

- A reporting entity has the power to direct the activities of another entity when it has the current ability to direct the activities of the entity that significantly affect the returns.
- The reporting entity can have that current ability to direct the activities by different means:
    - By having the contractual ability to direct the activities, which can arise from having:
        1. More than half of the voting rights in an entity controlled by voting rights
        2. Contractual rights within other contractual arrangements that related to the substantive activities of the entity
        3. A combination of contractual rights within other contractual arrangements and holding voting rights in the entity.
    - By holding less than half of the voting rights in an entity considering relevant facts and circumstances.
- The assessment of whether a reporting entity has the current ability to direct the activities of an entity includes an assessment of both the reporting entity's rights (and whether they are sufficient to give the reporting entity power), and whether the rights held by other parties could prevent the reporting entity from having the ability to direct.
- In situations in which a reporting entity does not have the contractual ability to direct the activities (eg when it holds less than half of the voting rights in an entity), a reporting entity may need to rely on other indicators of power to provide evidence of having the ability to direct, such as whether it can obtain additional voting rights from holding potential voting rights or whether the entity's operations are dependent on the reporting entity. In some situations, considering the size of the reporting entity's holding of voting rights relative to the size and dispersion of holds of other vote holders, together with voting patterns at previous shareholders meetings, could provide sufficient evidence of having the ability to direct.

The FASB tentatively decided that the guidance for variable interest entities in Codification Topic 810 (specific to US GAAP), except for the implementation guidance, would be replaced by the control principles established within this project with the expectation that the guidance established in this project will produce consolidation results consistent with those reached under the Variable Interest Entity subsections of Topic 810.

Principal-Agency relationship

The boards tentatively decided that:

a. when assessing whether a decision-maker is an agent or a principal, the assessment should be made on the basis of the overall relationship between the decision-maker, the entity being managed and the other interest holders, and should consider all of the following factors:
    i. Scope of decision-making authority
    ii. Rights held by other parties
    iii. Remunerations of the decision-maker
    iv. The decision-maker's exposure to variability of returns because of other interest that it holds in the entity.

b. when assessing control, the involvement and interests of a related party should be considered to be those of the reporting entity when the nature of the reporting entity's relationship with that related party is such that the related party is acting on behalf of the reporting entity. The boards tentatively agreed that this would also be the case where those that direct the activities of the reporting entity also have the ability to direct another entity to act on behalf of the reporting entity. The boards also tentatively decided that the final standard will include a list of potential related parties. The boards tentatively agreed to include guidance in the final standard that is similar to that in ASC Paragraph 810-10-25-44 to address situations in which a reporting entity, together with its related parties, as a group, meets the control requirements.

c. a description of a structured entity should be included in the next due process document. That description would incorporate some of the factors that describe a *variable interest entity* in US GAAP (ASC Topic 810-10, as amended by FASB Statement No.167), but the description would not include all of the current guidance that is in Topic 810-10.

Disclosures

The boards discussed a reporting entity's disclosures for subsidiaries. The boards tentatively decided that, subject to wording changes, as a general disclosure principle, a reporting entity should disclose information that help users of financial statements to understand:

a. the composition (and changes in the composition) of the group;
b. the effect of legal structures within the group, and changes to those structures, on the reporting entity's ability to access and use assets and resources of consolidated entities;
c. the nature of, and changes in, the risks associated with the reporting entity's involvement with structured entities.

The boards also tentatively decided that a reporting entity could provide the disclosures on an aggregated basis, unless separate disclosure would provide more decision-useful information. The final disclosure requirements will contain application guidance on how the information could be aggregated.

The boards tentatively decided that, to comply with the general disclosure principle, a reporting entity should disclose:

a. all significant judgements and assumptions in determining whether it controls another entity and any changes in its control assessments that require significant judgement and the reasons for those changes; and
b. the nature of restrictions that are a consequence of assets and liabilities by the parent or its subsidiaries.

The boards asked the staff to conduct further research on disclosures relating to:

a. summarised financial information on subsidiaries;
b. the interest that the non-controlling interests have in the group; and
c. a reporting entity's risk exposure from its involvement with subsidiaries.

The boards discussed reputational risk in the context of requiring disclosures for implicit obligations of support that a reporting entity may have with another entity. The boards tentatively decided to require disclosures regarding the provision of support to another entity when there was no contractual or constructive obligation to do so and whether it has any current intentions to provide support or other assistance in the future. The boards will continue to deliberate disclosures for consolidated and unconsolidated entities at the April 2010 joint board meeting.

February 2010

The IASB began its deliberations of the disclosure requirements proposed in ED 9 *Joint Arrangements* and ED 10 *Consolidated Financial Statements*. The Board tentatively decided to combine the disclosure requirements for subsidiaries, joint ventures and associates within a comprehensive disclosure standard would address a reporting entity's involvement with other entities when such involvement is not within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*. Such a disclosure standard would also include the disclosure requirements for joint operations.

In addition, the Board tentatively affirmed the proposal in ED 10 that a reporting entity should disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, structured entities that the reporting entity does not control. The disclosure would be integrated within the comprehensive disclosure standard for a reporting entity's involvement with other entities.

Additional Joint Meeting IASB and FASB

The IASB and the FASB discussed how an entity that is considered an investment company should account for investments in entities that it controls.

The boards tentatively decided that there should be an exception to consolidation, whereby an investment company must measure investments in entities that it controls at fair value. The boards tentatively decided that the guidance currently in the US GAAP Codification (Topic 946) should be used as the basis for developing the attributes of an investment company. The boards asked the staff to do further work to remove any US specific references, and to address certain implementation concerns about that guidance.

The boards tentatively decided that an investment company should be required to provide additional disclosures about entities that it controls when it measures investments in those entities at fair value. The disclosures will be developed as part of the new disclosure requirements for involvement with consolidated entities.

January 2010 (Joint Meeting)

The IASB and the FASB discussed the following issues relating to the control model being developed for the purposes of determining when one entity should consolidate another:

- Control through voting rights (including control with less than half of the voting rights in an entity)
- Options and convertible instruments
- Agency relationships (including kick-out rights)

Control through voting rights

The boards tentatively decided that, when assessing control of entities controlled through voting rights:

- a reporting entity that holds more than half of the voting rights in an entity meets the power element of the control definition, in the absence of other arrangements.
- a reporting entity (with less than half of the voting rights in an entity) that has the legal or contractual ability to direct those activities of the entity that significantly affect the returns meets the power element of the control definition.

The IASB tentatively decided that a reporting entity with less than half of the voting rights meets the power element of the control definition in situations in which the reporting entity holds significantly more voting rights than any other party or organised group of shareholders, and in which the other shareholdings are widely dispersed. The FASB tentatively decided that such a reporting entity must have demonstrated that it has directed the activities of the entity that significantly affect the returns in order to meet the power element of the control definition.

Options and convertible instruments

The boards tentatively decided that a reporting entity should consider options and convertible instruments when assessing whether it has the power through voting rights to direct the activities of an entity that significantly affect the returns. The consideration of whether a reporting entity has the power to direct the activities of the other entity would include not only a reporting entity's voting rights in another entity, but also an assessment of all the facts and circumstances associated with the options or convertible instruments.

Agency relationships

The IASB and the FASB discussed what factors should be considered when determining whether a party that has been delegated decision-making authority should be considered to be an agent. The boards also discussed whether kick-out rights that are exercisable on agreement by more than one unrelated party could be substantive and should be considered when assessing agency relationships. The boards did not reach any decisions on agency relationships. This topic will be discussed further by the IASB and FASB at their February 2010 joint Board meeting.

October 2009 (Joint Meeting)

The FASB has recently amended its requirements in relation to identifying when entities known as variable interest entities should be consolidated. Variable interest entities include the type of structure such as structured investment vehicles that attracted attention as the global financial crisis developed.

The IASB is deliberating its proposals to revise its requirements for identifying when entities should be consolidated. The IASB's proposals would apply to entities that would be variable interest entities under U.S. GAAP. However, the IASB's proposals are broader and would also apply to those entities that are normally controlled by way of voting rights. At this meeting:

- The boards concluded that the objectives for assessing control of structures that would be classified as variable interest entities under the recent amendments to U.S. GAAP on consolidation and in the proposed IASB model are fundamentally the same.
- The boards identified some differences in the application of those principles and agreed to conduct their respective projects on consolidation jointly and deliberate issues relating to the consolidation guidance at monthly joint meetings.
- The IASB agreed to amend its project timetable to give both boards the opportunity to deliberate the consolidation requirements, with the goal that the FASB would publish an exposure draft that is consistent with the consolidation standard issued by the IASB. The boards think that this approach increases the likelihood that the FASB and the IASB consolidation requirements will result in a converged solution.
- The FASB expects to be in a position to publish an exposure draft at the beginning of the second quarter of 2010. The IASB has tentatively decided that it should publish its final standard after it has considered, with the FASB, comment letters the FASB receives on its proposals.

September 2009

The Board continued its deliberations of the proposals in ED 10 *Consolidated Financial Statements* considering comments and information received from respondents to the exposure draft and from participants at the round table meetings held in June 2009.

The Board decided tentatively:

- to clarify that 'the activities' in the control definition are those activities of an entity that significantly affect the returns.
- to retain a broad definition and description of returns, similar to the description included in paragraphs 10 and 11 of ED10.
- to clarify the following regarding the returns element of the control definition:
    - a reporting entity must be exposed to variability of returns in the future
    - a reporting entity's returns can have the potential to be wholly positive, wholly negative or either positive or negative.
- to clarify the characteristics of power as follows:
    - power refers to a reporting entity's current ability to enforce its will in directing the activities of an entity that significantly affect the returns
    - power need not be exercised (this will be readdressed when the Board discusses power with less than half of the voting rights at a future Board meeting)
    - power need not be absolute
    - power is assessed on the basis of current facts and circumstances.
- that the final standard should include guidance discussing participating rights as follows:
    - participating rights are rights that, if held by one party, are sufficient to give that party the ability to enforce its will in directing the activities of an entity that significantly affect the returns. If their exercise requires agreement by more than one party, participating rights prevent other parties from controlling the entity to which they relate.
    - participating rights must be substantive.
    - rights that are exercisable only when specified circumstances arise or events happen are participating rights in some circumstances and protective rights in others. The final standard will explain those circumstances.
- to retain the guidance on protective rights included in paragraphs B1 and B2 of ED10.
- that when two or more parties have discrete, unilateral decision-making authority over different activities of an entity, the party that has the ability to direct the activities that most significantly affect the returns meets the power element of the control definition.
- to clarify that understanding the purpose and design of an entity is an important factor to consider when assessing control of that entity, but that involvement in the design of an entity is not, in isolation, sufficient to conclude that the reporting entity controls that entity.
- that a reporting entity be required to assess control continuously and that the final standard should clarify the application of that requirement.

July 2009

The Board began its deliberations of the proposals in ED 10 *Consolidated Financial Statements* considering comments and information received from respondents to the exposure draft and from participants at the round table meetings held in Toronto, Tokyo and London in June 2009.

The Board decided tentatively that:

- 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.
- 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.
- 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.
- 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.
- 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.

In September 2009, the Board will continue to discuss the control model, power with less than half of the voting rights, power from options or convertible instruments and control of what ED 10 describes as structured entities.

Mai 2009

The Board discussed an overview of the responses to ED10 *Consolidated Financial Statements* and the project plan. The staff will work towards an IFRS by the end of the year and at a future meeting the Board will discuss the timing for completing the project. The session was educational and the Board made no decisions.

March 2009 (Joint Meeting)

The boards discussed ways they might meet their MOU commitments relating to derecognition and consolidation.

The boards noted that the FASB will issue final Statements amending Statement 140 and Interpretation 46(R) in 2009, with expected effective dates of 2010. The boards also noted that the IASB will publish in the next few days an exposure draft that would replace existing requirements on derecognition of financial instruments. The IASB has already published an exposure draft of proposed requirements for consolidation.

The boards decided that they would deliberate the issues raised by constituents in comment letters with the objective of reaching common conclusions following the close of the comment period on the IASB's two exposure drafts. At the conclusion of those redeliberations, the IASB would issue standards for derecognition and consolidation. The FASB would publish exposure drafts for public comment on both topics.