DRSC e. V. • Zimmerstr. 30 • 10969 Berlin

Telefon +49 (0)30 206412-12
Telefax +49 (0)30 206412-15
E-Mail info@drsc.de

EFRAG
Stig Enevoldsen
13-14 Avenue des Arts
B-1210 Brussels
Belgique

Berlin, 23 March 2009

Dear Stig,

GASB's Comment Letter on ED 10 "Consolidated Financial Statements"

The GASB has submitted its comment letter on ED 10 to the IASB today. Please find the document attached for your information.

Yours sincerely,

Liesel Knorr

President

DRSC e. V. • Zimmerstr. 30 • 10969 Berlin

Telefon +49 (0)30 206412-12
Telefax +49 (0)30 206412-15
E-Mail info@drsc.de

Sir David Tweedie
Chairman of the
International Accounting Standards Board
30 Cannon Street

London EC4M 6XH
United Kingdom

Berlin, 23 March 2009

Dear David,

Exposure Draft ED 10 'Consolidated Financial Statements'

On behalf of the German Accounting Standards Board (GASB) I am writing to comment on the IASB Exposure Draft ED 10 'Consolidated Financial Statements" (herein referred to as 'ED'). We appreciate the opportunity to comment on the Exposure Draft.

As outlined in the ED, the IASB intends to improve the definition of control and related application guidance so that the control model can be applied to all entities (including structured entities), and to improve the disclosure requirements about consolidated and unconsolidated entities.

The GASB does not support ED 10 for the following key reasons:

1. We are not convinced that the revised definition of control as currently drafted represents an improvement to financial reporting.
   Firstly, with regard to entities other than structured entities, we do not regard the proposed changes to IAS 27 significant enough to warrant a new standard.
   Secondly, in our view, the proposed changes on the assessment of control with regard to structured entities do not form an improvement to existing requirements, since we do not deem the proposed definition of control which incorporates an explicit assessment of returns and power to be the right principle to cover structured entities. In contrast, we are rather convinced that the existence of control is far better evidenced by analysing the risks and rewards of the relationship with a structured entity. We think that looking at risks and rewards does not constitute a second model in its own right and next to the control model; rather, we understand the reference to risks and rewards as being indicators of control over an entity in the absence of the other factors prevalent in traditional investments – which seems to be the same notion contained in SIC-12. We, thus, reaffirm our view expressed in our comment letter on the IASB's Discussion Paper on "Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Reporting Entity" in which we argued that risks and rewards may serve as indicators of control. The GASB supports the dissenting views of three board-members as expressed in AV8 of the ED.

2. We appreciate the reconsideration of de facto control and options.
   Nevertheless, we do not deem the proposed guidance appropriate. The proposed definition of control focuses solely on the ability of having power which we do not agree with as regards de facto control. Furthermore, we do not believe that the proposed requirements regarding options and convertible instruments are appropriately addressed in the ED. The facts and circumstances which are deemed to be indicating control in combination with options do not appear to be consistently designed to us. We support the dissenting views of three board-members as expressed in AV6 of the ED: It is not clear whether the principle for consolidation is in fact being in control or having the ability to be in control.
3. We do not support the extensive disclosure requirements in particular with regard to unconsolidated structured entities.
   On the one hand, we fail to see the core principle underlying the voluminous disclosure requirements.
   On the other hand, the huge amount of information proposed to be required gives the impression that the IASB intends to compensate for missing information in case of structured entities not being consolidated.

Please find our detailed comments on the questions raised in the DP in the appendix to this letter. If you would like to discuss our comments further, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr
President

Control

Q1: Do you think that the proposed control definition could be applied to all entities within the scope of IAS 27 as well as those within the scope of SIC-12? If not, what are the application difficulties?

According to the proposed definition of control in the ED, 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. In general, the GASB supports the IASB's efforts to cover all entities by a universal definition of control.

We believe that the proposed definition of control can be applied to all entities within the scope of IAS 27, but we doubt that it can be applied to structured entities. In our opinion, in many cases it is not verifiably which party has the power to direct the activities of a structured entity. Thus, power cannot be explicitly substantiated in these cases. In contrast, we believe that in the case of structured entities power can be justified only indirectly. Based on our understanding of ED 10, the proposed control definition ignores that fact and will, therefore, cause difficulties when assessing who is or might be in control of a structured entity. Therefore, we propose to consider the risks and rewards notion for indirectly determining power in those cases in which power cannot be assessed directly. (For further details we refer to our comments on question 7.)

Furthermore, we see difficulties regarding the assessment of control in cases in which no shareholder owns the majority of voting rights (de facto control). The GASB understands the proposed control principle such that the power to direct the activities of an entity does not need to be actually exercised. We do not believe that notion works well in all circumstances. In our opinion, a reporting entity controls another entity in which the reporting entity does not have an interest of more than 50%, only if the reporting entity demonstrates that is actually exercising its power to direct the activities of the other entity.

Q2: Is the control principle as articulated in the draft IFRS an appropriate basis for consolidation?

Affirming our view expressed in our comment letter on the IASB's Discussion Paper "Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Reporting Entity", we believe the control concept should be the primary basis for consolidation. With regard to the definition of control we generally agree that control should refer to both power and returns.

Power

According to the ED, power to direct the activities of an entity is the ability to determine its strategic operating and financing policies (ED 10.22 “can determine”, ED 10.27(b) “ability to determine”). Firstly. We think the wording of this notion is inconsistently designed and leads to many open questions.

Did the IASB intend a change in the notion when altering “financing and operating policies” of IAS 27 to “strategic operating and financing policies” under ED 10?

If yes, which decisions are covered by “strategic operating and financing policies”? In our opinion a decision can be taken regarding strategic matters **or** operating matters. Should the term then rather be “strategic, operating and financing policies”?

If the IASB intended to widen the policies to be determined by including “strategic”, what is the rationale behind that?

Apart from these questions, we believe the IASB’s notion (“ability to determine its strategic operating and financing policies”) works well and is necessary in circumstances in which a reporting entity owns more than 50% of the voting rights. Otherwise, a reporting entity might be able to avoid consolidation by simply saying that it does not exercise its power to direct the activities.

As expressed in our comments to question 1, we believe that in cases in which the reporting entity does not own more than 50% of the voting rights the reporting entity must demonstrate that it is actually exercising its power to direct the activities prior to concluding if it has control. To sum up, the GASB rather supports the control principle to include a reference to power that is actually exercised in such cases. For more details we refer to our comments regarding question 3.

Returns

The GASB notes a lack of clarity with respect to the understanding of this term. Though the ED states that returns can be positive or negative and furthermore cites examples in ED 10.11, we do not believe that the discussion of the term in the ED results in an appropriate common understanding of the term. With regard to the notion that returns can be positive or negative, the GASB considers that the term *returns* is not subject to consistent application in other current IFRSs. We think that the way the term is used in several other standards gives the impression of *returns* to be understood exclusively as positive returns:

Examples are:

FW 9(a): The providers of risk capital and their advisers are concerned with the **risk** inherent in, and **return** provided by, their investments.

IAS 1.IG10: *“The Group’s objectives when managing capital are to safeguard the entity’s ability to continue as a going concern, so that it can continue to provide **returns** for shareholders and benefits for other stakeholders, and to provide an adequate **return** to shareholders by pricing products and services commensurate with the level of risk.”*

IAS 7.3: *“They [entities] need cash to conduct their operations, to pay their obligations, and to provide **returns** to their investors.”*

IAS 19.BC29a: *"Undiversifiable risk reflects not the variability of the* ***returns*** *(payments) in absolute terms but the correlation of the* ***returns*** *(or payments) with the* ***returns*** *on other assets."*

To minimize our concerns we would propose to refer to both risk and returns.

If the IASB wishes to retain its current notion, we think that *returns* should be explicitly defined in the defined terms section of the standard. That definition should, of course, include the notion that returns can be positive or negative. Additionally, the ED should cite further examples of returns including examples for negative returns.

Assessing Control

Q3: Are the requirements and guidance regarding the assessment of control sufficient to enable the consistent application of the control definition? If not, why not? What additional guidance is needed or what guidance should be removed?

The governing body

With regard to the assessment of whether or not a reporting entity has the power to direct the activities of another entity, the ED takes the control over the governing body more into consideration than IAS 27 does. In this respect the ED refers to a governing body which determines the strategic, operating and financing policies.

With regard to the use of the term *governing body*, the GASB has the impression that the ED is geared to jurisdictions with a monistic board system and does not allow to apply it to dual board systems. In a monistic system a corporation has a board comprising both, the executive directors, and the non-executive directors responsible for managing the business and controlling the management, respectively, whilst in a dual system the responsibilities are tasked to different panels (board of management and supervisory board). In a dual board system the board of management typically needs the approval of the supervisory board to make more important strategic decisions and arrange significant transactions.

The principle currently described in ED 10 does not give sufficient guidance on how to apply it to a dual board system. ED 10 neither discusses the two systems predominantly used worldwide nor does it provide guidance on how to understand the term "strategic operating and financing policies". It is unclear on which kind of decisions the IASB is focused on when saying the governing body determines the strategic operating and financing policies. If the focus was on <u>operating decisions,</u> the board of management could be deemed to be the governing body. If the focus was instead on <u>strategic decisions,</u> might the governing body be understood to comprise both the board of management and the supervisory board? In our view, the ED is silent on this circumstance which may cause reporting entities facing difficulties in defining the governing body. We therefore think that this issue should be addressed in the standard.

The GASB is of the opinion that dual board systems may not completely be disregarded in an international financial reporting standard. Thus, we would like to propose that the IASB should discuss at least both board systems regarding the assessment of control in the basis for conclusions of the ED.

A further concern of the GASB is related to paragraphs 23 and 24 of the ED. We understand the distinction between ED 10.23 and 24 in the sense of directing the activities by voting rights in the governing body and directing the activities by voting rights related to the shareholders (general assembly), respectively. Based on this understanding, the GASB deems these requirements to be inconsistently designed. We think that in most cases membership in the governing body is determined by voting rights of shareholders. Thus, in the GASB's view this condition should be mentioned first.

A further concern of the GASB relates to the determination of membership in the governing body according to ED 10.24, which refers to the appointment or removal of the members of the governing body determined by voting rights. In dual board systems the membership of the board of management is not determined by voting rights but - as regulated by law - is elected by the supervisory board, which in turn is elected by the shareholders (voting rights).

To minimise our concerns as articulated above we would propose the IASB considering combining ED 10.23 and 24 into one paragraph and changing the wording as follows: "*A reporting entity has the power to direct the activities of another entity by having* <u>*direct*</u> *or* <u>*indirect*</u> *power to appoint or remove the members of that entity's governing body that have more than half of the voting rights within that body.*" The wording of our proposal also incorporates our view, that power should be actually exercised (please refer to our comments on question 2).

De facto control

According to paragraph 28 and the context where this paragraph is situated, the GASB understands the term *dominant shareholder* to mean a shareholder with less than half of the voting rights but more voting rights than any other party. Furthermore, we understand that the dominant shareholder is thought to be the consolidating party since the wording of ED 10.27(b) seems to imply hat the dominant shareholder must conclude to have power to direct the activities of the other entity because the reporting entity was able to exercise the majority of the voting rights in the recent general meeting of the other entity.

The GASB does not agree with that notion. In our view, for determining whether or not the dominant shareholder has the power to direct the activities of another entity, it is essential that the ability to determine the strategic, operating and financing policies is sustainably assured. Our main concern in this respect arises from the general weakness of the proposed control concept when applied in situations where there is no absolute majority of voting rights. If – due to a relative majority of voting rights that is caused by other shareholders abstaining from the AGM or being widely dispersed with regard to their composition – an entity is presumed to be the dominant shareholder, we fail to see why this would evidence sufficiently that this entity is in control of the entity. Rather, the dominant shareholder will always be exposed to the risk of losing its ability to direct the activities. In other words, the other shareholders are always able to take the "ability to direct" away from the dominant shareholder by acting in a coordinated way. In addition, the dominant shareholder may have no information as to whether the other shareholders are widely dispersed or, if that proved to be the case at the last AGM, this fact could have changed during the recent reporting period. In our view, the fact that the dominant shareholder had indeed have the ability to dominate decisions made at past AGMs may indicate power, but could also indicate other things, for example, that no or no controversial decisions regarding the strategic, operating and financing policies were on the agenda of those past meetings.

Therefore, the GASB does not agree with the proposed control definition and the proposed requirements, if there is no majority of voting rights and de facto control is assumed to exist.

Although we agree with referring to the "ability to direct" in cases when a reporting entity has the majority of voting rights and there are no major decisions which need a quorum exceeding the interest of the reporting entity, with respect to de facto control we would like to propose a wording that includes the notion that the reporting entity has the power to direct the other entity's strategic operating and financing and thus, actually directs the strategic operating and financing policies.

Q4: Do you agree with the Board's proposals regarding options and convertible instruments when assessing control of an entity? If not, please describe in what situations, if any, you think that options or convertible instruments would give the option holder the power to direct the activities of an entity.

We do not agree.

Generally, the ED should clarify that options that give the option holder the majority of the voting rights if exercised do not put the option in a control position yet. We believe that for determining control a reporting entity must have power. To determine power an option holder would have to exercise the options unless the entity can demonstrate that it has already power by means and prior to exercising the options. This view is discussed in the section about 'de facto control' of our comments regarding question 3.

ED 10.B13 sets out three conditions for control if a reporting entity owns options or convertible instruments in order to obtain voting rights. We do not agree with these conditions.

The fact that the governing body of the entity currently determining the strategic operating, and financing policies of that entity acts "in accordance with the wishes" of the reporting entity can at best **indicate** power, since there might be other reasons which cause the governing body to act in that way.

We generally agree that a reporting entity has to consider voting rights owned by parties that act as an agent of the reporting entity to be voting rights of the reporting entity. In our opinion, that principle is valid irrespective of the existence of options. Thus, we do not deem that principle helpful in assessing whether options give the option holder control. For further comments we refer to question 5.

Furthermore, the GASB believes that particular rights that enable the reporting entity to have the power to direct the activities of the entity do not require an option in order to obtain voting rights to conclude control. Rather, we rather think that those rights can give the reporting entity power without the existence of options in order to obtain voting rights. To sum up, we do not consider the third condition as set forth in ED 10.B13(c) to be essential either.

If the IASB does not share our view, we would like point out that only physically-settled options should be able to serve as an indicator for power to direct the activities.

Q5: Do you agree with the Board's proposals for situations in which a party holds voting rights both directly and on behalf of other parties as an agent? If not, please describe the circumstances in which the proposals would lead to an inappropriate consolidation outcome.

The GASB agrees that a reporting entity has to consider voting rights owned by parties that act as an agent of the reporting entity to be voting rights of the reporting entity. This essential principle is currently missing in the ED; however, it is mentioned in the section discussing options in the appendix. In our opinion this principle should be stated explicitly in the main body of the standard.

We agree with the Board's proposals in situations in which a party holds voting rights both directly and on behalf of other parties, i.e. as an agent. Nevertheless, we think that the ED should refer to the actual exertion of power rather than only to the ability to exercise the voting rights of the other parties.

Structured entities

Q6: Do you agree with the definition of a structured entity in paragraph 30 of the draft IFRS? If not, how would you describe or define such an entity?

The GASB does not deem the proposed definition of structured entities appropriate. Firstly, we think that an appropriate definition should not use negative criteria to circumscribe an issue, and secondly, we suspect that a definition for structured entities is always deemed to open up structuring opportunities. We see the risk that companies will be able to create structures not meeting the established definition and, thus, to avoid the application of the different assessment rules and disclosure requirements.

We support the IASB in providing guidance regarding the identification of structured entities, but we are of the opinion that this should be made by a descriptive means rather than by trying to define structured entities concisely. We suggest the IASB considering the following notion of a structured entity:

a) There are entities for which power cannot be assessed directly by means of voting rights, if, in substance, such voting rights are not relevant for the activities of the entities.

b) For these entities the control principle has to be supplemented by the risks and rewards model assessing that the entity exposed to the majority of risks and rewards through its involvement with a structured entity has power or has already exercised power sustainably. For further comments we refer to question 7.

We believe that it is these entities that should be referred to as structured entities; however, we suggest deleting the current definition from the defined terms section and clarifying in the standard that this notion shall not be considered a definition. The description should be supplemented by indicators, such as the guidance as provided in SIC-12.

If the IASB wishes to retain a definition of a structured entity, we propose considering a definition that does not use negative criteria, exclusively.

Q7: Are the requirements and guidance regarding the assessment of control of a structured entity in paragraphs 30–38 of the draft IFRS sufficient to enable consistent application of the control definition? If not, why not? What additional guidance is needed?

Firstly, we do not believe that the proposed concept of control can be appropriately applied to structured entities. Our main concern is that – according to the proposed definition of control – power has to be determined explicitly which is not possible in many cases involving structured entities. Secondly, we do not understand the risk and reward notion (referring to returns in a positive and negative sense) to be contrary to the control principle (referring to power and returns).

Therefore, we think that the risks and rewards model should be deemed to be a supplementing notion for control saying that power can be implicitly justified by the majority of risks and rewards – as, for example, in ED 10.33 (*the more a reporting entity is exposed to the variability of returns from its involvement with an entity, the more power the reporting entity is likely to have to direct the activities of that entity.*) That follows from the fundamental principle that the acceptance of risks and rewards is based on reasonable economic behaviour of all parties involved coupled with the above view expressed in ED 10.33, i.e. parties who are exposed in such way would want to manage the outcome of their involvement by means of directing the activities of the business concerned. ED 10.33 is also right in saying that the more a party is exposed to the variability of returns, the more power the party is likely to have, as it will consider its exposure when making the relevant arrangements with the other parties involved.

We deem additional indicators to be necessary for assessing control for structured entities. The ED provides some indicators in paragraphs 31 to 38. However, based on our view expressed above, we are of the opinion that those indicators should be geared to the risks and rewards notion which is currently not the case in paragraphs 31 to 38. Therefore, we would like to suggest the IASB reconsider these indicators against the background of SIC-12.

In addition to our view outlined above on how such indicators should be set up, we would like to point out some issues in paragraphs 31 to 38 (which might be drafting errors):

- The indicators articulated in the ED appear to be examples rather than principles. Consequently, we suggest redesigning the standard in the following way: Firstly, the standard should state that risks and rewards can serve as an indicator for the power to implicitly direct the activities of an entity and, therefore, provide evidence of control. The indicators should then be placed in the appendix of the standard and referred to in the main body.

- We deem the risks and reward notion in paragraph 33 to be inconsistently applied, since we understand the principle in ED 10.6 to be that a reporting entity either has the power to direct the activities of an entity or not. Against this background we would like to propose to alter the phrase as follows: *The more a reporting entity is exposed* *to the variability of returns from its involvement with an entity, the more the reporting entity is likely to have power to direct the activities of that entity.*

- ED 10.32 explains how to assess the purpose and design of a structured entity. In our opinion, the phrase *created to undertake activities that are part of the reporting entity's ongoing activities* may give the impression that it refers to current activities of the reporting entity only and may therefore exclude activities that the reporting entity is going to enter into at a later date. Since we believe that structured entities can be created for future activities of the reporting entity as well, we propose to consider the more general wording of SIC-12 referring to the *specific business needs* of the reporting entity instead of *ongoing activities*.

- ED 10.37 sets forth that a reporting entity can control a structured entity by means of related arrangements. In our opinion, this paragraph does not describe a specific indicator or example for control of a structured entity. It rather articulates a principle which is already mentioned in paragraph 17 of the ED.

Furthermore, we prefer examples to be included in the draft Illustrative examples of the ED. With respect to entities for which power can not be assessed explicitly, we think that the Illustrative Examples section of the standard should cover examples in which consolidation is required and cases in which it is not.

Q8: Should the IFRS on consolidated financial statements include a risks and rewards 'fall back' test? If so, what level of variability of returns should be the basis for the test and why? Please state how you would calculate the variability of returns and why you believe it is appropriate to have an exception to the principle that consolidation is on the basis of control.

If the IASB decides to explicitly consider the risks and rewards model in the standard in the way we described in our comments on question 7, a fall back test will not be necessary. If, however, the IASB decides not to explicitly consider the risks and rewards model in the standard, we agree to include a risks and rewards fall back test.

Furthermore, the GASB agrees that the risks and rewards model does not provide a sufficiently robust basis for consolidation. However, in our view, risks and rewards are characteristics of control and, thus, does not compete against the control model and do not form an exception to the principle of consolidation based on control. Therefore, we believe that the risks and rewards notion should be included in the control concept. For more details please see our comments regarding question 7.

Disclosures

Q9: Do the proposed disclosure requirements described in paragraph 23 provide decision-useful information? Please identify any disclosure requirements that you think should be removed from, or added to, the draft IFRS.

Involvement with unconsolidated structured entities and associated risks

The GASB generally appreciates the IASB's objective to improve the disclosure requirements about consolidated and unconsolidated entities, in particular to better inform (potential) capital providers about the nature of, and risks associated with, a reporting entity's involvement with 'off-balance sheet' activities.

However, we fail to see a core principle behind the disclosure requirements. Firstly, we are concerned that the voluminous information to be provided might dilute valuable single pieces of information; secondly, we do not agree with the IASB's requirement to disclose the information in tabular format only.

The proposed disclosure requirements seem to aim at compensating or overcompensating for a lack of information resulting from structured entities not being consolidated and, therefore, seem to aim at rectifying inadequate accounting in the statements of financial position, comprehensive income or cash flows.

Hence, we feel ill-equipped to assess the decision-usefulness of the disclosure requirements.

However, we agree with paragraph 48(d) which contains some sort of a guiding principle regarding disclosures about the reporting entity's involvement with unconsolidated structured entities. We suggest the IASB reconsider the detailed guidance on disclosures against the background of the risk a reporting entity is exposed to through its involvement with structured entities and to additionally take into account the availability of information regarding entities not controlled.

Additionally, we would like to highlight some more issues which might be drafting errors:

Basis of control

We understand ED.B32(c) to refer to those structured entities for which ED 10.33 presumes the structured entities to be controlled but not consolidated by the reporting entity. If our understanding is correct, paragraph B32(c) should be articulated in the same way as ED 10.33: *A reporting entity shall describe the basis for its assessment and any significant assumptions or judgements when the reporting entity has concluded that it does not control a structured entity, despite the reporting entity's exposure to the variability of returns from the structured entity being more than that of any other party and its returns being potentially significant to the structured entity*.

The interest that the non-controlling interests have in the group's activities

ED 10.B35(c) requires to disclose the *business activity or segment to which the non-controlling interests relate.* We are concerned that in the case in which an entity own less than 100% of a subsidiary, which is assigned to more than one segment, it is unclear how to allocate figures mentioned above to several segments. Furthermore, ED.B35 mentions the undefined term *performance*. In our view, it might not be clear for preparers and other parties what precisely is meant by *performance*. Consequently, further clarification is necessary.

ED 10.B36 contains disclosure requirements regarding the date of financial statements of a subsidiary when that date differs from the date of the consolidated financial statements. Since we understand this paragraph referring to all subsidiaries, we do not believe that paragraph to be correctly placed under the headline *The interest that the non-controlling interests have in the group's activities*.

Restrictions on consolidated assets and liabilities

The GASB doubts that the disclosure requirement in ED 10.B37(a) is clearly articulated. In our opinion, the IASB should explicitly clarify what is meant by *the extent to which non-controlling interests can restrict the activities of subsidiaries*.

Furthermore, the examples mentioned in ED 10.B37 give the impression that the disclosures of restrictions on consolidated assets and liabilities mainly consist of restrictions with regard to cash flows within the group, whilst the headline refers to assets and liabilities. In our opinion, the IASB should clarify whether the headline has to be changed or include further examples which follow the notion expressed by the existing headline.

Q10: Do you think that reporting entities will, or should, have available the information to meet the disclosure requirements? Please identify those requirements with which you believe it will be difficult for reporting entities to comply, or that are likely to impose significant costs on reporting entities.

Prior to considering this question we believe that it is necessary to consider the decision-usefulness of the proposed disclosure requirements first. As expressed in our comments to question 9, we feel ill-equipped to evaluate the decision-usefulness since we do not see an appropriate core principle behind the disclosure requirements. Therefore, we do not deem the discussion about the availability of information to be appropriate prior to step 1.

Other matters

Q11:
(a) Do you think that reputational risk is an appropriate basis for consolidation? If so, please describe how it meets the definition of control and how such a basis of consolidation might work in practice.
(b) Do you think that the proposed disclosures in paragraph B47 are sufficient? If not, how should they be enhanced?

The GASB does not deem reputational risk to be an appropriate basis for control. However, reputational risk can lead to a reporting entity perform transactions which might result in a circumstance indicating control. For example, a reporting entity might be forced by reputational risk to support external retailers of the entity's products. That support can comprise providing subordinated loans which, in combination with other facts, might give the reporting entity the majority of risks and rewards, which in turn can then indicate the entity to be in control.

We basically agree with disclosures regarding actions taken by the reporting entity as a result of minimizing reputational risk; however, for the reason given in our comments on question 9 we are not in a position to comment on part (b) of question 11.

Q12: Do you think that the Board should consider the definition of significant influence and the use of the equity method with a view to developing proposals as part of a separate project that might address the concerns raised relating to IAS 28?

We agree with the IASB to reconsider the definition of significant influence vis-à-vis the requirements of ED 10. According to ED 10, control can exist irrespective of voting rights exceeding a certain threshold, whilst the definition of significant influence in IAS 28 is geared stronger to such a threshold (20% to 50% of the voting rights which is not bright line). The GASB, therefore, is concerned about a growing uncertainty about how to distinguish between control and significant influence.

Other drafting issues

The ED contains examples in the main body of the standard, for instance in ED 10.28. We are of the view that examples should rather be placed in the appendix than in the main body of the standard; the main body of a standard should contain principles only.

ED 10.B9 uses the term *key management personnel* which according to IAS 24.9 is defined to comprise "[…] those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity." In our view, the IASB should either define this term for the purposes of the ED or clarify that the term shall be understood as defined in IAS 24.

We are also concerned about the use of further undefined terms in the disclosures section: It appears unclear to us what is meant by *value* and *income* (ED 10.B41). In our view, a clarification would help to gain a better understanding.