© DRSC e.V. ‖ Zimmerstr. 30 ‖ 10969 Berlin ‖ Tel.: (030) 20 64 12 - 0 ‖ Fax.: (030) 20 64 12 -15
www.drsc.de - info@drsc.de

DSR – öffentliche SITZUNGSUNTERLAGE

DSR-Sitzung:	**129. / 09.03.2009 / 10:00 – 13:00 Uhr**
TOP:	**02 – ED 10 Consolidated Financial Statements**
Thema:	**Stellungnahme an den IASB**
Papier:	**02a_Draft CL ED 10 clean**

Die Abgabefrist für Stellungnahmen an den IASB endet am **20. März 2009**.

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, #Date#

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. In general, the GASB supports the IASB's objective to state more precisely the requirements set forth in IAS 27 and SIC-12 and to focus on a single model which is applicable to all entities. Against the background of the Financial Crisis we furthermore believe that enhanced disclosure requirements are necessary to improve the information for (potential) investors in particular with regard to off-balance-sheet transactions.

We, however, would like to address some concerns:

The proposed control definition allows too much leeway in terms of interpretation and application, particularly with regard to de facto control and structured entities. In our view the proposed requirements might force a reporting entity to consolidate another entity in many cases in which consolidation appears not appropriate to us. In addition, the ED refers to terms which in our opinion are not adequately defined, for example returns, structured entities and governing board.

Affirming our view expressed in our comment letter on the IASB Discussion Paper "Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Reporting Entity", the GASB is of the opinion that risks and rewards may serve as indicators of control. Therefore, we believe that no concept should be excluded from the discussion.

Furthermore we do not believe that the proposed requirements requirements regarding options and convertible instruments are appropriately discussed 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.

(wird fortgeführt auf Basis der Ergebnisse der 129. DSR-Sitzung)

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?

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

We doubt that this definition can be applied to all entities within the scope of IAS 27 and SIC-12. The proposed concept will, in our opinion, cause difficulties in terms of the assessment for structured entities and de facto control, particularly. For more details we refer to our comments regarding questions 3 and 7.

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 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. Regarding the definition of control we agree that control should refer to both power and returns.

Power

According to the ED power to direct the activities is the ability to determine the strategic operating and financing policies (ED 10.22 "can determine", ED 10.27(b) "ability to determine"). The GASB understands the proposed control principle that power does not need to be actually exercised. We suspect that this will result in too much leeway in terms of interpretation and application particularly in the light of missing majorities (de facto control). Concluding, the GASB rather prefers the control principle to include a reference to power that is actually exercised. 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. Firstly, *returns* should in our view 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. Secondly, the ED should cite further examples of returns including examples for negative returns. In addition, with regard to the notion that returns can be positive or negative, the GASB considers that the term *returns* is not subject to a 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:

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 commensurately 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."*

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 may serve as indicators of control. Therefore, we believe that the risks and rewards model should be included in the control concept. For more details please see our comments regarding question 7.

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 whether or not a reporting entity has power to direct the activities of another entity, the ED takes the control of the governing body more into consideration than IAS 27 does. With respect to the use of the term *governing body* the GASB has the impression that the ED is rather geared to jurisdictions with a monistic board system than taking into account the existence of 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, while in a dual system the responsibilities are tasked to different panels (board of directors and supervisory board).

Furthermore, the ED refers to a governing body which determines the strategic operating and financing policies. Basically, in our opinion both the board of directors and the supervisory board together can be deemed to be the governing body in a dual board system, since the board of directors typically needs the approval of the supervisory board to arrange significant transactions. In addition, we observe that the statutes of many corporations do not permit the board of directors together with the supervisory board to make strategic decisions without the approval of the general assembly comprising all shareholders. In other words, in a dual board system the governing body is in many cases not the authority which alone can make strategic decisions. 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 appropriately discussed in the appendix.

We understand the distinction between ED 10.23 and 24 in regard to 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.

Firstly, we think that in most cases membership in the governing board is determined by voting rights of shareholders. Thus, in the GASB's view this condition should be mentioned first. Secondly, subsuming both cases under the headline "power to direct the activities with a majority of the voting rights" does not appear to be appropriate in our opinion since the term "majority of the voting rights" is commonly associated with the majority of voting rights on shareholder level rather than on the level of the governing board.

A further concern of the GASB relates to the determination of membership in the governing body according to the 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 (for instance in Germany) the membership of the board of directors is not determined by voting rights but - as regulated by law - elected by the supervisory board, which in turn is elected by the shareholder (voting rights).

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

More generally, the GASB is of the opinion that dual board systems may not completely be disregarded in an international accounting standard. Thus, we would like to propose that the IASB should discuss both board systems in the basis for conclusions of the ED.

De facto control

According to ED 10.28 and the context it is mentioned in, 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. We furthermore understand the dominant shareholder basically should be the consolidating party since the wording of ED 10.27(b) may imply that the dominant shareholder must conclude to have power to direct the activities because the reporting entity was able to exercise the majority of the voting rights in the recent general meeting.

The GASB does not agree with that notion. In our view for determining if the dominant shareholder has 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 which refers only to the ability to direct the strategic operating and financing policies. The ability to direct the strategic operating and financing policies solely caused by an absence of other shareholders is in our view no sustainably assured power. 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 away the "ability to direct" from the dominant shareholder by either increasing their voting rights or by acting in a coordinated way.

In our view, the fact that the dominant shareholder was able to dominate or actually dominated the decisions made in past general assemblies does not demonstrate that this power is sustainably assured and therefore it does not mean power to direct the activities in terms of the ability to direct the strategic operating and financing policies. That fact may potentially indicate power but can also indicate different things for example that in these past meetings no decisions regarding the strategic operating and financing policies were subject of the agenda.

Furthermore we think that in many cases a reporting entity can hardly verify that it is the dominant shareholder. Although a reporting entity will always be able to quantify its own voting rights, it generally cannot precisely verify the voting rights of other shareholders. Therefore, a dominant shareholder as understood in the way described above will in many cases not be able to verify its dominance and thus whether it is the dominant shareholder.

For these reasons the GASB does not agree with the proposed control definition and the proposed rules in regard to de facto control. In our opinion, the control definition should refer to power which is actually exercised. 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 policies based on the reporting entity's voting rights and thus, actually directs the strategic operating and financing policies.

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 discussed in the appendix than in the main body of the standard. In our opinion, the main body of a standard should contain principles only. Furthermore, 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.

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.

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

Overall, the GASB notes a change in the perspective from which control has to be assessed. Based on the control definition in ED 10.4 the preparer of financial statements takes the perspective of the reporting entity when assessing whether the reporting entity has power to direct the activities of another entity to generate returns for the reporting entity. For the assessment of control based on options this perspective changes to the governing body of the other entity. ED 10.B13(a) refers to the governing body of the other entity which determines the strategic operating and financing policies in accordance “with the wishes of the reporting entity”. This change of the perspective is in our view not consistent with the control concept which refers to the perspective of the reporting entity.

Furthermore, the governing body determining the strategic operating and financing policies in accordance with the wishes of the reporting entity can at best indicate power, since there might also be other reasons which cause the governing body to act in that way. For example the governing body volunteers to determine the strategic operating and financing policies in accordance with the best wishes of the option holder because the governing body deems the option holder to be a very experienced person and relies on the option holder to “make the right decisions”. In this case the GASB would not consider the option holder to control the other entity.

In addition, we miss the general notion 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. We would like to propose to clarify that in the main body of the standard. If the IASB decides to do so, the condition in ED 10.B13(b) would not be necessary any more and could therefore be deleted.

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 to obtain voting rights to conclude control. We rather think that those rights can give the reporting entity power without the existence of options to obtain voting rights. Concluding, we do not consider the third condition as set forth in ED 10.B13(c) to be essential.

In contrast, the GASB deems options to obtain voting rights to be an indicator of facts and circumstances that imply power to direct the activities. Since those facts and circumstances can exist irrespective of the existence of options or convertible rights we propose to refer to those facts and circumstances when assessing power irrespective of options and to point out that options or convertible instruments may indicate the existence of those facts and circumstances but do not imply power by themselves. Furthermore, a reporting entity should be required to demonstrate why it does not control the other entity despite the reporting entity owning options to obtain voting rights related to the other entity. In addition, we think that only cash settled options should be able to serve as an indicator for facts and circumstances that imply 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.

We agree with the general principle. 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?

*******************Diskussionsstand des DSR***************************

According to ED 10.30 “a structured entity is an entity whose activities are restricted to the extent that those activities are not directed as described in paragraphs 23–29.” The GASB does not consider the wording in ED 10.30 to form a definition because we generally do not consider a definition containing references to paragraphs to be adequately articulated. Furthermore, we do not think that limiting a description to negative criteria (as ED 10.30 does) ensures a robust definition. We are of the opinion that the notion roughly expressed by the definition of involvement with a structured entity is helpful and thus should be included in the definition of a structured entity. According to the defined terms of the ED, involvement with a structured entity includes both contractual and non-contractual involvement that exposes the reporting entity to variability of returns of the structured entity.

We propose to define a structured entity as follows:

For the purposes of this standard a structured entity is an entity,

a) whose activities are restricted to the extent that those activities are not directed by voting rights or by controlling the governing body or by virtue of other arrangements that enable the reporting entity to direct activities that would normally be directed by the governing body of that other entity, and

b) that causes a reporting entity to be exposed to the variability of returns of the structured entity if that reporting entity is involved with that entity.

*******************Diskussionsstand der AG “Consolidation“***************************

We understand the main objective of the IASB is to ensure a consistent application of the control principle as articulated in the ED to all types of entities. However, the ED distinguishes between “normal entities” and structured entities with respect to assessing control which does not in our view form a consistent approach.

Apart from that, we are not of the opinion that there exists a definition of structured entities that will form a robust basis for identifying this kind of entity. In contrast, our main concern is that a definition will always allow structuring opportunities. We see the risk, that companies can influence whether to consolidate or not as well as whether to disclose further information as proposed in the ED because companies will be able to create structures not meeting the established definition and thus avoid the application of the different assessment rules and disclosure requirements. Therefore, we do not agree with explicitly distinguishing between “normal entities” and structured entities.

The GASB, however, is aware that there are entities whose activities are restricted to the extent that those activities are not directed by voting rights or by controlling the governing body or by virtue of other arrangements that enable the reporting entity to direct activities that would normally be directed by the governing body of that other entity and, therefore, the assessment of the power criterion is not decisive.

The GASB is of the opinion that the distinction as described above should be made on the level on which the difference arises - which is the level of power. That would precisely mean to ask if power to direct the activities can be proven explicitly by considering the “traditional” concept (voting rights, control of the governing body, directing the strategic operating and financing policies by other means) or not.

We therefore believe that the term structured entities should not be used in the standard. For the continuing deliberation based on that notion please refer to our comments for question 7.

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?

******************* Diskussionsstand der AG “Consolidation“***************************

Based on our view to exclude the term structured entities from the standard we propose the IASB to consider our following notions:

The GASB is of the opinion that the risks and rewards may serve as an indicator for control and therefore does not compete against the control model. In cases where power cannot be assessed explicitly, risks and rewards indicate which party is most likely to have power to direct the activities. If power cannot explicitly be assessed, power should be indirectly assessed by referring to the risks-and-rewards-approach 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*).

Furthermore, the GASB considers this notion to be inconsistently applied in ED 10.33 as we understand the principle in ED 10.6 that a reporting entity either has power to direct the activities or has 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.*

Since the risks and rewards model without reference to other facts and circumstances does not provide a sufficiently robust basis for consolidation we deem additional indicators to be necessary for assessing control. The ED provides such indicators in paragraphs 31 to 38. We basically agree with these indicators, however, we would like to point out some issues we do not think to be adequately discussed:

To the GASB the indicators articulated in the ED appear to be rather examples than principles. Consequently, we suggest redesigning the standard in the following way: At first, the standard should state that risks and rewards can provide evidence for power to direct the strategic operating and financing policies implicitly and therefore provides evidence for control in combination with other facts and circumstances. Afterwards, the indicators should be placed in the appendix of the standard and referred to in the main body.

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 therefore may 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. This paragraph does in our opinion not describe an indicator for control of a structured entity. It rather articulates a principle which should be mentioned prior to referring to the indicators.

Furthermore, the GASB criticises that case studies are missing in the draft Illustrative examples of the ED. We think that particularly with respect to entities for which power can not be assessed explicitly the Illustrative examples should cover several cases in which consolidation is required and cases in which consolidation is not required.

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.

****************** Diskussionsstand der AG "Consolidation"***************************

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.

The GASB is not of the opinion that the risks and rewards model competes against the control model (please refer to our comments on question 7). Hence, in our view considering risks and rewards does not form an exception to the principle of consolidation based on control.

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.

******************* Diskussionsstand der AG “Consolidation“***************************

The GASB appreciates the IASB’s objective to improve the disclosure requirements about consolidated and unconsolidated entities, in particular to get (potential) capital providers better informed about the nature of, and risks associated with, a reporting entity’s involvement with ‘off-balance sheet’ activities. However, we have concerns about the practicability, the consistency and the understanding of the proposed disclosure requirements in general.

Basis of control

According to ED.B32 (b) a reporting entity shall disclose the basis for its assessment and any significant assumptions or judgements when the reporting entity has concluded that it does not control an entity whose activities are directed through voting rights even though the reporting entity is the dominant shareholder with voting rights. We understand the dominant shareholder to be the shareholder with less than half of the voting rights but more voting rights than any other party. Our concern is that although a reporting entity will always be able to quantify its own voting rights but not the voting rights of other shareholders. Therefore a dominant shareholder will in many cases not be able to verify its dominance and thus whether it is the dominant shareholder. The GASB is of the opinion that the standard should refer rather to a shareholder with more than half of the voting rights than to the dominant shareholder.

Furthermore, we understand ED.B32(c) to refer to those structured entities that are controlled by a reporting entity based on the returns indicator as expressed in ED 10.33 but which are nevertheless not consolidated by that reporting entity. If our understanding is correct, paragraph B32(c) should in our opinion be articulated equal to 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 whose returns in regard to their variability the reporting entity is exposed to and the reporting entity’s exposure is more than that of any other party and whose returns are 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 case of a less than 100% subsidiary which is assigned to more than one segment it is unclear how to assign the figures mentioned above to the 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 while 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 meet the notion given by the existing headline.

Involvement with unconsolidated structured entities and associated risks

Overall, the GASB disagrees with the disclosure requirements as articulated in ED 10.B38 to ED 10.B47 because of three main concerns:

1. The GASB has the impression that the quantity of the required details to be disclosed and the character of the required information are to a certain extent motivated by the preconception that reporting entities rather keep information regarding risk arising from the involvement with structured entities hidden than disclose that information.

2. The proposed disclosure requirements include detailed information about entities which are not controlled by the reporting entity. That is not consistent in our opinion. We basically agree that there is a need to improve disclosures particularly in regard to the risk arising from 'off-balance-sheet' structures. In contrast, we do not believe that this need can be met by a "checklist" that gives the impression to aim at compensating or overcompensating a lack of information resulting from structured entities not being consolidated. In contrast, we consider the requirement in ED 10.B44(d) to be the central information since it relates to the reporting entity's maximum risk and therefore meets the basic need to inform about risk arising from 'off-balance-sheet' structures.

3. The GASB is also concerned about the use of further undefined terms in the disclosures section: It might appear unclear to preparers and other parties what is meant by value and income (ED 10.B41). In our view, a clarification would help to gain a better understanding. In addition we do not consider the disclosures required in B44(a) to (c) to be feasible, particularly when a non-consolidated structured entity has subsidiaries itself. In our opinion it appears very difficult for reporting entities to verify if relationships through the supply of goods and services exist with subsidiaries of structured entities with which the reporting entity has an involvement.

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.

The GASB think that in general, many of the disclosures proposed are available or can be obtained by the reporting entities with reasonable effort. However, we believe that gathering the information indicated by the respective paragraphs below will be subject to extensive system changes:

Basis of control

B32 (c)

Restrictions on consolidated assets and liabilities

B37 (c)

Involvement with unconsolidated structured entities and associated risks

B38 (a), B38 (b)

Involvement with unconsolidated structured entities and associated risks: Nature and extent of involvement

B40, B42

Involvement with unconsolidated structured entities and associated risks: Nature of risks

B43, B44 (a) – (d), B46 (a) – (e)(ii)

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?

******************* Diskussionsstand der AG "Consolidation"***************************

The GASB is not of the opinion that reputational risk is an appropriate basis for control. However, in combination with other facts and circumstances reputational risk can form an indicator for control.

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?

******************* Diskussionsstand der AG “Consolidation“***************************

According to ED 10 control can exist irrespective of voting rights exceeding a certain threshold while the definition of significant influence in IAS 28 is stronger geared to such a threshold (20% of the voting rights). The GASB, therefore, is concerned about a growing uncertainty about how to distinguish between control and significant influence. Hence, we would agree with the IASB to reconsider the definition of significant influence.