

MINUTES



Financial Accounting
Standards Board

To: Board Members
From: Interpretation 46(R) Team (Mathys, ext. 446)
Subject: Minutes of the October 20, 2008, Joint Board Meeting: Consolidation **Date:** January 26, 2009
cc: FASB: Golden, Bielstein, Lott, Donoghue, Lusniak, Mayer, Burnap, Sperry, Barker, Roberge, Hood, Chookaszian, Posta, Gabriele, Sutay, Glotzer, Allen, Klimek, C. Smith, Mechanick, Nickell, Schonefeld, Mathys, Cropsey, Proestakes, Wilkins, Stoklosa, FASB Intranet; IASB: Leisenring, Kusi-Yeboah, Teixeira

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Statement, Interpretation, or FASB Staff Position.

Topic: Consolidations
Basis for Discussion: Staff Draft of Exposure Draft on amendments to Interpretation 46(R)
Length of Discussion: 1:00 p.m. to 2:15 p.m.
Attendance:

Board members present: FASB: Herz, Linsmeier, Seidman, L. Smith, and Siegel
IASB: Tweedie, Barth, Cooper, J. Smith, Danjou, Garnett, Gelard, Leisenring, McGregor, Yamada, Wei-Guo, Jones, and Engstrom

Board members absent: None

Staff in charge of topic: Roberge and Teixeira

Other staff at Board table: FASB: Golden, Meyer, and Stoklosa
IASB: Clark

Summary of Decisions Reached

The staff presented an overview of the similarities and differences between proposed FASB Statement, *Amendments to FASB Interpretation No. 46(R)*, and the IASB Exposure Draft, *ED 10 Consolidated Financial Statements*. The FASB issued an Exposure Draft on September 15, 2008, while the IASB issued an Exposure Draft in December 2008.

The Boards considered if the separate FASB and IASB projects should be conducted jointly. The Boards noted that the primary differences between the documents include scope, definitions, and drafting language. The Boards agreed that analyzing these differences will be essential if consistent guidance is to be issued, whether jointly or separately. Given the current economic conditions, the Boards agreed that it is important to issue guidance in a timely manner. The Boards decided to continue to conduct separate projects with the project teams working together to analyze comments received from constituents on the respective Exposure Drafts. The Boards agreed to consider the progression of the separate projects, including similarities and differences in preliminary conclusions reached by the separate Boards and comments received on each Exposure Draft to determine potential future convergence in consolidation accounting guidance.

Objectives of Meeting:

1. The purpose of the joint meeting was to help the Boards assess the feasibility of developing common standards. The objective was met.

Matters Discussed and Decisions Reached:

Issue 1: Similarities and Differences between the proposed FASB Statement and the IASB Exposure Draft

2. **Staff Recommendation:** Mr. Teixeira stated that if the Boards are interested in issuing a converged standard, there are three options going forward:
 - a. Discontinue either the FASB's project on amendments to FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, or the project on the IASB's Exposure Draft (Mr. Teixeira stated that he favors retaining the IASB project).
 - b. Attempt to converge terminology and disclosure requirements of each Board's proposed standard.
 - c. Conduct more detailed analysis while continuing to work separately.

3. **Board Vote:** The Boards decided to continue to conduct separate projects with the project teams working together to analyze comments received from constituents on the respective Exposure Drafts.
4. **Board Comments:** Mr. L. Smith asked what the project timeline would be if the Boards decided to discontinue the FASB's project.
5. Mr. Teixeira stated that he expects an IASB Exposure Draft on consolidations to be issued in November 2008, with a likely comment period of no less than 120 days and a target date of final issuance of June 30, 2009. The IASB issued its Exposure Draft in December 2008, with a comment period ending March 20, 2009.
6. Mr. Tweedie stated that issuing a final standard by June 30, 2009, is very optimistic, and the IASB hopes that a standard would be issued by year-end 2009 at the latest. He also inquired about when the proposed FASB Statement would be effective.
7. Mr. Herz stated that an effective date as late as 2010 or 2011 is not acceptable, given the current economic conditions. He also stated that he prefers a standard that covers both variable interest entities and voting interest entities. Ideally, he would like to obtain the comments on the proposed FASB Statement and then see how to mold or converge with the IASB Exposure Draft. Finally, Mr. Herz stated that he is not convinced that the conclusions on examples would be the same under both the proposed FASB Statement and the IASB Exposure Draft.
8. Mr. J. Smith agreed with Messrs. Herz and Roberge that the conclusions reached by the FASB in the examples within its proposed Statement would not be reached under the guidance in the IASB Exposure Draft and that the IASB Exposure Draft still has room for improvement.
9. Mr. Leisenring noted that the issue of scope is very important. The FASB's proposed Statement focuses on variable interest entities only, while the IASB Exposure Draft deals with both variable interest entities and voting interest

- entities. He stated that, due to the differences in scope, it is also difficult for the Boards to interchange their definitions of *control*. Mr. Leisenring voiced concern that the two Exposure Drafts were inconsistent regarding whether *control* means that an entity *currently* has control or the entity *has the ability* to be in control (for example, if the entity has options).
10. Mr. Tweedie asked Mr. Teixeira to summarize the recent IASB discussion regarding control.
 11. Mr. Teixeira stated that the IASB concluded that options are different from *currently having* control (that is, they represent the ability to *obtain* control), but they may still give the ability to control. Mr. Teixeira explained that the staff is still giving thought to the issue, especially regarding situations in which the options are either deeply in the money or deeply out of the money. For example, if options are deeply in the money, they could be easily accessed and exercised. In contrast, if the options are deeply out of the money, an entity may have to borrow additional funds to access and exercise the options, which makes it less realistic to say the entity has any power.
 12. Mr. Teixeira noted that the IASB is leaning toward stating that options do give an entity control while also soliciting feedback regarding whether there are examples when options do not give control.
 13. Mr. Roberge stated that options are similar to kick-out rights, a topic that the IASB has not yet addressed. The FASB determined that kick-out rights neither enhance nor diminish an enterprise's control unless they can be unilaterally exercised.
 14. Mr. Linsmeier stated that he has a problem linking power directly with benefits. He stated that the FASB separated power and benefits or losses for variable interest entities from other entities, and the distinction between entities should be made now.

15. Mr. Herz stated that, regarding the differences in the two Exposure Drafts, the staffs should continue working separately and track comments received on each one.
16. Mr. Teixeira suggested that he and Mr. Roberge should work together on the examples in the Exposure Drafts to determine whether the same conclusion can be reached for the same reasons using either Board's model. He also stated that if different conclusions are reached or similar conclusions are reached for different reasons, the staff should discover the reasons for such differences.
17. Mr. J. Smith stated that if the Boards want to move away from the quantitative analysis in favor of more qualitative analysis, *power* may need to be defined or developed further in the IASB Exposure Draft.
18. Mr. Gilbert stated that the entity with power is assumed to be the entity with the benefits, so power does not need to be defined.
19. Mr. Herz noted that the lack of definition for "power" in the current guidance in Interpretation 46(R) was one reason for confusion on the topic; so the FASB tried to develop the definition more in its proposed Statement.
20. Mr. J. Smith asked Mr. Roberge how to deal with a situation in which one enterprise has all the risk of loss (including benefits) but no power? Mr. Roberge responded that he would determine that the enterprise would not consolidate, but would question the rationale for an enterprise taking on risk of loss of such magnitude without any power to influence the activities of the entity.
21. Mr. McGregor said that to get enough votes to issue an Exposure Draft, the IASB staff should lay out its nine examples and apply both the FASB and IASB models to determine whether IASB Board members come to the same conclusions as the FASB Board members. Then, the staff also should compare the conclusions with those reached under IAS 27, *Consolidated and Separate Financial Statements*, and SIC Interpretation 12, *Consolidation—Special Purpose Entities*, to determine if the IASB Exposure Draft makes a difference.

22. Mr. J. Smith also suggested that the staff give the examples to the IASB Board members without the conclusions to see whether the Board members come to the same conclusions as the staff, given the IASB Exposure Draft as a guide.

23. Mr. Teixeira concluded that it is important to be sure that the IASB staff's most recent draft of its Exposure Draft reflects the staff's current thinking because the draft is always evolving.

Follow-up Items:

None

General Announcements:

None