

## MINUTES



Financial Accounting  
Standards Board

**To:** Board Members

**From:** Consolidations Team (Phillips, x443)

**Subject:** Minutes of March 24, 2010 Board Meeting; Consolidations

**Date:** May 24, 2010

**cc:** FASB: Golden, Bielstein, Lott, Proestakes, Stoklosa, Mechanick, Roberge, Farber, Phillips, Andrews, C. Smith, Brickman, Hood, Glotzer, Gabriele, Sutay, FASB Intranet, McGarity, Klimek FASAC: Chookaszian, Posta, Guasp; GASB: Finden, Avis; IASB: Leisenring, Francis, Knubley, Lian, Vatrenejak, Kim

*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 an Accounting Standards Update or a Statement of Financial Accounting Concepts.*

Topic: Consolidations

Basis for Discussion: Memos 8 and 9 (addendum), 13, 14, 15 and 16

Length of Discussion: 6:00 AM to 8:30 AM

Attendance:

Board members present: FASB: Herz, Linsmeier, Seidman, Siegel, Smith

IASB: Tweedie, Cooper, Danjou, Engström, Finnegan, Garnet, Gélard, Gomes, Kalavacherla, Leisenring, McConnell, McGregor, Smith, Yamada, Zhang

Board members absent: None

Staff in charge of topic: FASB: Roberge

IASB: Buchanan

Other staff at Board table: FASB: Andrews, Farber, Phillips, and Stoklosa

IASB: Buschhueter and Ruane

Outside participants: None

### **Type of Document and Timing Based on the Technical Plan:**

The Board met to discuss issues relating to the development of Proposed Accounting Standards Update addressing Consolidations. The Board's technical plan calls for the document to be issued in **June 2010**.

### **Summary of Decisions Reached:**

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 tentatively decided the following:

- 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:
    - More than half of the voting rights in an entity controlled by voting rights
    - Contractual rights within other contractual arrangements that related to the substantive activities of the entity
    - 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.

#### Disclosures

The boards discussed a reporting entity's disclosures for subsidiaries. The boards concluded that the disclosure requirements would apply to both voting interest entities and structured entities. 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.

**General Announcements:** None