

February 2010

## *IASB Update on Consolidation*

*The International Accounting Standard Board met with the US Financial Accounting Standards Board (FASB) in London on 18 - 20 January 2010, where amongst others they discussed consolidation*

### **Consolidation**

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.

**Source:** IASB Update January 2010

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