



International Accounting Standards Board®

Press Release

18 December 2008

IASB publishes proposed new Consolidation standard as part of comprehensive review of off balance sheet risk

The International Accounting Standards Board (IASB) today published for public comment proposals to strengthen and improve the requirements for identifying which entities a company controls.

The proposals form part of the IASB's comprehensive review of off balance sheet activities and address an area cited by the G20 leaders at their 15 November meeting. The proposals also respond to the recommendations contained in a report published in April 2008 by the Financial Stability Forum (FSF). Further proposals on off balance sheet items, covering the derecognition of assets and liabilities, are due to be published in the first quarter of 2009, consistent with the G20 target date of 31 March 2009.

The use of special structures by reporting entities, particularly banks, to manage securitisations and other more complex financial arrangements was highlighted by the FSF and the G20 as a matter of concern. Some commentators have questioned whether the current requirements lead to the right things being brought onto the balance sheet. They have been concerned that financial statements do not convey the extent to which reporting entities are exposed to risks from those types of structures.

The proposals address those concerns by presenting a new, principle-based, definition of *control of an entity* that would apply to a wide range of situations and be more difficult to evade by special structuring. The proposals also include enhanced disclosure requirements that would enable an investor to assess the extent to which a reporting entity has been involved in setting up special structures and the risks to which these special structures expose the entity. The proposals would apply not only to the banking sector but to any entity that uses legal entities to manage its activities.

Commenting on the proposals, Sir David Tweedie, Chairman of the IASB, said:

The proposals involve tightening the requirements for consolidation and expanding disclosures to give an overall view of companies' involvement with off balance sheet entities. They therefore go a long way to addressing concerns investors have expressed about how entities are accounting for some complex entity structures and uncertainties about the risks the entities face as a result of being involved with such structures.

We have moved quickly to deal with these issues and consulted widely through working groups and in public round tables. However, the continued input of both users and investors is crucial to ensure that our proposals will help improve transparency and increase investor confidence in financial statements.

The IASB invites comment on the proposals, set out in an exposure draft, ED 10 *Consolidated Financial Statements*, by 20 March 2009. The exposure draft is available on the 'Open for Comment' section on www.iasb.org from today.

Printed copies of ED 10 (ISBN for the set 978-1-905590-86-5) will be available shortly, at £12 plus shipping, from the IASC Foundation Publications Department. Those wishing to subscribe to eIFRSs should visit the online shop at www.iasb.org or contact:

IASC Foundation Publications Department,
30 Cannon Street, London EC4M 6XH, United Kingdom.
Tel: +44 (0)20 7332 2730 Fax +44 (0)20 7332 2749
Email: publications@iasb.org Web: www.iasb.org

The IASB will hold two live Web presentations on 8 January 2009 to introduce ED 10. Further details of those presentations will be announced on the Website in due course.

The IASB plans to redeliberate the proposals in the light of respondents' comments and to issue the resulting IFRS in the second half of 2009.

END

Press enquiries:

Mark Byatt, Director of Corporate Communications, IASB
telephone: +44 (0)20 7246 6472, email: mbyatt@iasb.org

Sonja Horn, Communications Adviser, IASB
telephone: +44 (0)20 7246 6463, email: shorn@iasb.org

Technical enquiries:

Alan Teixeira, Director of Technical Activities, IASB

telephone: +44 (0)20 7246 6442, email: ateixeira@iasb.org

Notes for editors

About consolidation

Consolidated financial statements consolidate all of the entities that are controlled by the reporting entity into a single economic group. They enable an investor to identify all of the assets, liabilities, revenues, expenses and cash flows controlled by the reporting entity, whether that entity holds them directly or by using separate legal structures.

If adopted the new standard would replace existing consolidation requirements in IAS 27 *Consolidated and Separate Financial Statements* and the Interpretation SIC-12 *Consolidation—Special Purpose Entities*.

About the IASB

The IASB was established in 2001 and is the standard-setting body of the International Accounting Standards Committee (IASC) Foundation, an independent private sector, not-for-profit organisation. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that provide high quality transparent and comparable information in general purpose financial statements. In pursuit of this objective the IASB conducts extensive public consultations and seeks the co-operation of international and national bodies around the world. Its 14 members (12 of whom are full-time) are drawn from nine countries and have a variety of professional backgrounds. They are appointed by and accountable to the Trustees of the IASC Foundation, who are required to select the best available combination of technical expertise and diversity of international business and market experience.