

BELGIAN ACCOUNTING STANDARDS BOARD
(CBN-CNC) – COMMENTS

Stig Enevoldsen
Chairman
EFRAG
Wetstraat 13-14
1210 Brussel
Belgium

11th of March 2009

**RE: Comments on EFRAGs draft comment letter to the Exposure Draft 10
Consolidated Financial Statements**

Dear Sir / Madam,

The Belgian Accounting Standards Board (BASB) appreciates the opportunity to respond to the draft comment letter to Exposure Draft 10 *Consolidated Financial Statements*. Overall, we agree with the amendments proposed by the Exposure Draft. However, we do have some reservations.

Control of an entity

The Exposure Draft proposes a new, principle-based definition of 'control' that would apply to a wide range of situations and be more difficult to evade by special structuring.

'The power to direct the activities' is broader than *'the power to govern the financial and operating policies'* and will expand the scope of consolidation. Nevertheless 'control' has been well defined in the Exposure Draft, de facto control will anyway be very difficult to determine in certain circumstances.

Although, we agree that the new control definition provides clearer guidance for determining when one entity controls another. We also applaud that the Exposure Draft stipulates that as a consequence of the new definition only one party can control an entity and there can be circumstances in which an entity is not controlled by any party at all.

In this context, in our view, it should be obvious that the Exposure Draft should provide more guidance in the circumstances when an entity is not controlled by another party (by referring to other IAS/IFRS such as IAS 31 Financial Reporting of Interests in Joint Ventures).

Paragraph 9 of the Exposure Draft sets out a reporting entity can have power by having an agent act on its behalf. Even though paragraphs B3-B8 provide guidance on the relationship between a principal and its agent, the BASB emphasizes the importance of a clear definition of agents.

Assessing control

Paragraph 16 stipulates that, if the reporting entity ceases to receive returns from its involvement with an entity, it does not control that entity. What in case of, for instance, a restriction on the payment of dividends?

The Exposure Draft provides and clarifies some principles on the use of special structures by reporting entities, in our view particularly for banks. It would be interesting to add some real life examples to illustrate the application also for other industries. Those illustrations could provide some clarification.

Power can be difficult to assess considering who controls a structured entity. Some think that power could be easily disguised and, therefore, that a reporting entity might more easily avoid consolidating a structured entity that it controls than it would have been the case in SIC-12. One way of addressing this could be to propose a risk and rewards 'fall back' test if power cannot be assessed. More guidance on this risks and rewards 'fall back' test is much necessary, including how to treat the different shareholders' view on those risks and rewards.

If a structured entity has been identified as described in paragraphs 23-29, it is necessary to identify how returns from the entity's activities are shared and how decisions, if any, are made about the activities that affect those returns. The reporting entity shall consider all relevant facts and circumstances as described in paragraphs 31-38. If a business has not been identified as a structured entity, does this mean that the reporting entity shall not consider the facts and circumstances as described in the paragraphs 31-38? Considering those facts and circumstances can still provide useful information.

Power to direct activities without a majority of the voting rights

Paragraph 28 stipulates that a reporting entity can have the power to direct the activities of another entity if the reporting entity is the dominant shareholder that holds the voting rights and all the other shareholders with voting rights are widely dispersed and not organized in such a way that they actively co-operate when they exercise their votes so as to have more power than the reporting company.

The BASB is of the opinion that more guidance should be provided in the situation when those other shareholders do combine their voting rights or could combine their voting rights in reaction on the reporting entity using its power to direct the activities.

Disclosure

The disclosure requirements are already very extensive. Providing all those figures the reporting entity runs a great risk that the essence will not be communicated properly in the financial statements. It would be better to reduce the disclosure requirements but provide more useful information and the significance of this information to the reader of the financial statements.

Transition

If the application of the requirements of this Exposure Draft results in a reporting entity consolidating an entity that was not consolidated in accordance with IAS 27 and SIC-12, the reporting entity should apply the requirements of IFRS 3. More guidance would be welcome especially when it concerns structured entities, a key focus of the Exposure Draft. We understood it is the view of the IASB that mainly an IFRS 3 exercise at date of first application is practicable (going back in time being for IFRS 3 exercise not considered feasible).

However, if it primarily concerns structured entities, vs. acquired entities, would this argument still be valid? At 'acquisition date' – which often would be the date of incorporation of the structured entity – it would be possible to do a purchase price allocation exercise in accordance with IFRS 3, since the fair value of identifiable assets and liabilities probably will coincide with their net carrying values at that date.

The net of the fair values of the assets less (contingent) liabilities of a new consolidated structured entity (arising from the application of the acquisition method) at the date of first application often will be much higher than their net carrying amount. Also here more guidance would be appropriate.

Appendix A : Defined items

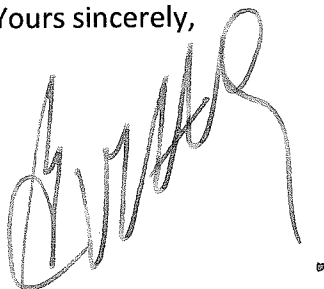
Protective rights concern rights of a party relating to the activities of an entity that do *not* give the party control of the entity, *nor* do they prevent another party from controlling that entity. A definition does have to explain what protective rights are, not what they are not. Only in Appendix B a positive explanation has been given.

Appendix B: Application guide

Finally, it should be mentioned that protective rights as set out in paragraph B2 frequently include strategic decisions with an important influence on the activities of the entity.

We hope you find these comments useful. If you would like to discuss any aspects of this comment letter in more detail, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Jan Verhoeye', with a stylized, cursive script.

Jan Verhoeye
Chairman BASB
Commissie voor Boekhoudkundige Normen (CBN-CNC)