

# FINANCIAL ACCOUNTING SERIES



## EXPOSURE DRAFT

### *Proposed Accounting Standards Update (Revised)*

Issued: October 11, 2012  
Comments Due: December 10, 2012

## Foreign Currency Matters (Topic 830)

### Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity

a consensus of the FASB Emerging Issues Task Force

This revised Exposure Draft of a proposed Accounting Standards Update of Topic 830 is issued by the Board for public comment. Written comments should be addressed to:

Technical Director  
File Reference No. EITF-11Ar

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Financial Accounting Standards Board  
of the Financial Accounting Foundation

The *FASB Accounting Standards Codification*<sup>®</sup> is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective.

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The Board invites comments on all matters in this Exposure Draft and is requesting comments by December 10, 2012. Interested parties may submit comments in one of two ways:

- Emailing a written letter to [director@fasb.org](mailto:director@fasb.org), File Reference No. EITF-11Ar
- Sending written comments to “Technical Director, File Reference No. EITF-11Ar, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116.”

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# Summary and Questions for Respondents

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## Why Is the FASB Issuing This Proposed Accounting Standards Update (Update)?

The objective of the amendments in this proposed Update is to resolve the diversity in practice about whether Subtopic 810-10, Consolidation—Overall, or Subtopic 830-30, Foreign Currency Matters—Translation of Financial Statements, applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment *in* a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) *within* a consolidated foreign entity.

Subtopic 810-10, as amended by Accounting Standards Update No. 2010-02, *Consolidation (Topic 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary—a Scope Clarification*, requires that a parent deconsolidate a subsidiary or derecognize a group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) if the parent ceases to have a controlling financial interest in that group of assets. The derecognition guidance in Subtopic 810-10 supports releasing the cumulative translation adjustment into net income upon the loss of a controlling financial interest in such a subsidiary or group of assets. That guidance does not distinguish between sales or transfers pertaining to an investment *in* a foreign entity (as defined in Topic 830) and those pertaining to a subsidiary or group of assets *within* a foreign entity. Subtopic 830-30, however, provides for the release of the cumulative translation adjustment into net income only if a sale or transfer represents a sale or complete or substantially complete liquidation of an investment *in* a foreign entity.

In addition, the amendments in this proposed Update would resolve the diversity in practice for the treatment of business combinations achieved in stages (sometimes also referred to as step acquisitions) involving a foreign entity. Some entities view step acquisitions as being composed of two events, the disposition of an equity method investment and simultaneous acquisition of a controlling financial interest. Those entities generally release the cumulative translation adjustment related to the equity method investment. Those entities that view step acquisitions as being composed of a single event (increasing an investment) generally do not release the cumulative translation adjustment in practice.

## Who Would Be Affected by the Amendments in This Proposed Update?

The amendments in this proposed Update would affect entities that cease to hold a controlling financial interest (as described in Subtopic 810-10) in a subsidiary or group of assets *within* a consolidated foreign entity when (1) the subsidiary or group of assets is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) and (2) there is a cumulative translation adjustment balance associated with that consolidated foreign entity. The proposed amendments also would affect entities that lose a controlling financial interest in an investment *in* a foreign entity (by sale or other transfer event) and those that acquire a business in stages (sometimes also referred to as a step acquisition) by increasing an investment *in* a foreign entity from one accounted for under the equity method to one accounted for as a consolidated investment.

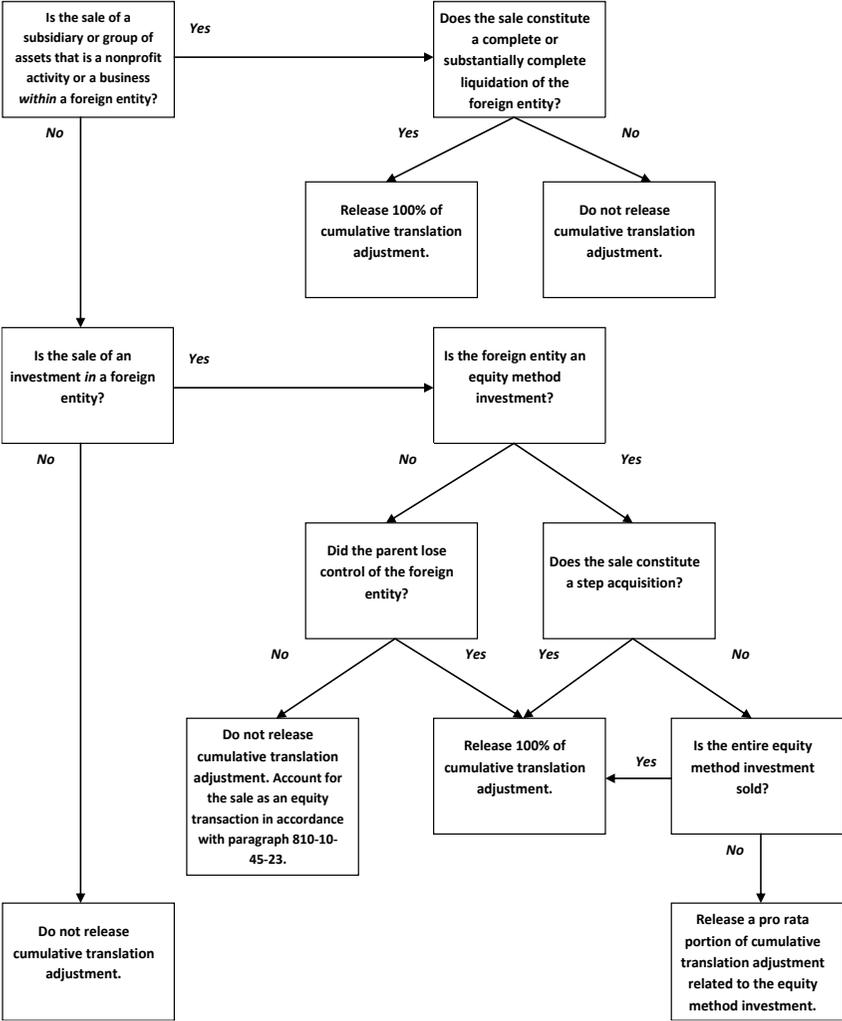
## What Are the Main Provisions?

When a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) *within* a consolidated foreign entity, the parent would be required to apply the guidance in Subtopic 830-30 to release any related cumulative translation adjustment into net income. Accordingly, the cumulative translation adjustment would be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided.

For an equity method investment that is a foreign entity, the partial sale guidance in Section 830-30-40 still applies. As such, a pro rata portion of the cumulative translation adjustment would be released into net income upon a partial sale of such an equity method investment. However, this treatment would not apply to an equity method investment that is not a foreign entity. In those instances, the partial sale would have to represent the complete or substantially complete liquidation of the foreign entity that contains the equity method investment in order for the cumulative translation adjustment to be released into net income.

Additionally, the amendments in this proposed Update would clarify that the sale of an investment *in* a foreign entity includes both (1) events that result in the loss of a controlling financial interest in a foreign entity (that is, irrespective of any retained investment) and (2) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date (sometimes also referred to as a step acquisition). Accordingly, the cumulative translation adjustment would be released into net income upon the occurrence of those events.

The following flow chart illustrates when the cumulative translation adjustment would be released into net income as described by the amendments in this proposed Update:



## How Would the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Would They Be an Improvement?

The amendments in this proposed Update would clarify the applicable guidance for the release of the cumulative translation adjustment under current U.S. GAAP. The Board believes that the proposed amendments would resolve the diversity in practice about whether the guidance in Subtopic 830-30 applies to the release of the cumulative translation adjustment when an entity ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) *within* a consolidated foreign entity. Likewise, the Board believes that diversity in practice would be resolved about whether Subtopic 830-30 applies to the release of the cumulative translation adjustment when there is a loss of a controlling financial interest *in* a foreign entity or a step acquisition involving an equity method investment that is a foreign entity. The Board also believes that the proposed amendments would improve current U.S. GAAP by emphasizing that the same accounting applies for releasing the cumulative translation adjustment into net income for sales or transfers of a controlling financial interest *within* a foreign entity irrespective of whether the sale or transfer is of a subsidiary or a group of assets (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) that is a nonprofit activity or business.

## When Would the Amendments Be Effective?

The amendments in this proposed Update would be applied prospectively to derecognition events occurring after the effective date. Prior periods would not be adjusted. Early adoption would be permitted. If an entity elects to early adopt the amendments, it would apply them as of the beginning of the entity's fiscal year of adoption. The effective date will be determined after the Task Force considers stakeholder feedback on the proposed Update.

## How Do the Proposed Provisions Compare with International Financial Reporting Standards (IFRS)?

The proposed amendments do not eliminate any existing differences in accounting and reporting between U.S. GAAP and IFRS. The guidance in FASB Statement No. 52, *Foreign Currency Translation* (codified in Topic 830), was not developed jointly with the IASB. However, similar to this proposed Update, the IASB's foreign currency translation guidance in IAS 21, *The Effects of Changes in Foreign Exchange Rates*, addresses disposals and partial disposals of a foreign operation. IAS 21 requires that the entire cumulative amount of exchange

differences relating to a foreign operation be reclassified from equity to profit or loss upon disposal of a reporting entity's entire interest in the foreign operation or, for partial disposals, when the partial disposal involves the loss of the control of a subsidiary that includes a foreign operation, even if the entity retains an interest in the former subsidiary after the partial disposal, among other circumstances. An entity may dispose or partially dispose of its interest in a foreign operation through sale, liquidation, repayment of share capital, or abandonment of all, or part of, that entity.

IFRS 3, *Business Combinations*, provides guidance for applying the acquisition method in a business combination achieved in stages. IFRS 3 requires the reclassification of the changes in value of the acquirer's equity interest that had been previously recognized in other comprehensive income to profit or loss when control is obtained. That includes amounts related to the cumulative amount of the exchange differences relating to a foreign operation recognized in other comprehensive income.

Unlike this proposed Update, IAS 21 does not contain guidance on the reclassification of the cumulative amount of exchange differences either with respect to the loss of a controlling financial interest in a group of assets (that is not a subsidiary) or with respect to the sales or transfers within a consolidated foreign entity.

## Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

**Question 1:** Do you agree that an entity should apply the guidance in Subtopic 830-30, as clarified by the amendments in this proposed Update, for the release of the cumulative translation adjustment into net income upon the loss of a controlling financial interest of a subsidiary or a group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a consolidated foreign entity? If not, please explain why.

**Question 2:** Do you agree that an entity should apply the guidance in Subtopic 830-30, as clarified by the proposed amendments, for the release of the cumulative translation adjustment into net income upon the loss of a controlling financial interest in an investment in a consolidated foreign entity as well as to the derecognition of an equity method investment that is a foreign entity in an

acquisition of a business in stages (sometimes referred to as a step acquisition)? If not, please explain why.

**Question 3:** Do you agree that the proposed amendments clearly differentiate the treatment for releasing the cumulative translation adjustment between events occurring *within* a foreign entity and events related to an investment *in* a foreign entity? If so, please explain.

**Question 4:** Do you agree that the proposed amendments should be applied prospectively? If not, please explain why.

**Question 5:** Do you agree that an entity should be permitted to early adopt the proposed amendments? If not, please explain why.

**Question 6:** How much time would be needed to implement the proposed amendments?

# Amendments to the *FASB Accounting Standards Codification*<sup>®</sup>

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## Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–5. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

## Amendments to Subtopic 805-10

2. Amend paragraph 805-10-25-10, with a link to transition paragraph 830-30-65-1, as follows:

### **Business Combinations—Overall**

#### **Recognition**

##### **> > A Business Combination Achieved in Stages**

**805-10-25-9** An acquirer sometimes obtains control of an acquiree in which it held an equity interest immediately before the acquisition date. For example, on December 31, 20X1, Entity A holds a 35 percent noncontrolling equity interest in Entity B. On that date, Entity A purchases an additional 40 percent interest in Entity B, which gives it control of Entity B. This Topic refers to such a transaction as a business combination achieved in stages, sometimes also referred to as a step acquisition.

**805-10-25-10** In a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date **fair value** and recognize the resulting gain or loss, if any, in earnings. In prior reporting periods, the acquirer may have recognized changes in the value of its equity interest in the acquiree in other comprehensive income (for example, because the investment was classified as available for sale). If so, the amount that was recognized in other comprehensive income shall be reclassified and included in the calculation of gain or loss as of the acquisition date. If the business combination achieved in stages relates to a previously held equity method investment that is a **foreign entity**, the amount of accumulated other

comprehensive income that is reclassified and included in the calculation of gain or loss shall include any foreign currency translation adjustment related to that previously held investment. For guidance on derecognizing foreign currency translation adjustments recorded in accumulated other comprehensive income, see Section 830-30-40.

## Amendments to Subtopic 810-10

3. Amend paragraph 810-10-40-4 and add paragraph 810-10-40-4A, with a link to transition paragraph 830-30-65-1, as follows:

### Consolidation—Overall

#### Derecognition

##### > Deconsolidation of a Subsidiary or Derecognition of a Group of Assets

**810-10-40-3A** The deconsolidation and derecognition guidance in this Section applies to the following:

- a. A subsidiary that is a **nonprofit activity** or a business, except for either of the following:
  1. A sale of in substance real estate (for guidance on a sale of in substance real estate, see Subtopic 360-20 or 976-605)
  2. A conveyance of oil and gas mineral rights (for guidance on conveyances of oil and gas mineral rights and related transactions, see Subtopic 932-360).
- b. A group of assets that is a nonprofit activity or a business, except for either of the following:
  1. A sale of in substance real estate (for guidance on a sale of in substance real estate, see Subtopic 360-20 or 976-605)
  2. A conveyance of oil and gas mineral rights (for guidance on conveyances of oil and gas mineral rights and related transactions, see Subtopic 932-360).
- c. A subsidiary that is not a nonprofit activity or a business if the substance of the transaction is not addressed directly by guidance in other Topics that include, but are not limited to, all of the following:
  1. Topic 605 on revenue recognition
  2. Topic 845 on exchanges of nonmonetary assets
  3. Topic 860 on transferring and servicing financial assets
  4. Topic 932 on conveyances of mineral rights and related transactions
  5. Topic 360 or 976 on sales of in substance real estate.

**810-10-40-4** A parent shall deconsolidate a subsidiary or derecognize a group of assets specified in ~~the preceding paragraph 810-10-40-3A~~ as of the date the parent ceases to have a controlling financial interest in that subsidiary or group of assets. See paragraph 810-10-55-4A for related implementation guidance.

**810-10-40-4A** When a parent deconsolidates a subsidiary or derecognizes a group of assets within the scope of paragraph 810-10-40-3A, the parent relationship ceases to exist. The parent no longer controls the subsidiary's assets and liabilities or the group of assets. The parent therefore shall derecognize the assets, liabilities, and equity components related to that subsidiary or group of assets. The equity components will include any noncontrolling interest as well as amounts previously recognized in accumulated other comprehensive income. If the subsidiary or group of assets being deconsolidated or derecognized is a foreign entity (or represents the complete or substantially complete liquidation of the foreign entity in which it resides), then the amount of accumulated other comprehensive income that is reclassified and included in the calculation of gain or loss shall include any foreign currency translation adjustment related to that foreign entity. For guidance on derecognizing foreign currency translation adjustments recorded in accumulated other comprehensive income, see Section 830-30-40.

## Amendments to Subtopic 830-30

4. Add paragraph 830-30-40-1A and amend paragraphs 830-30-40-2 through 40-3, with a link to transition paragraph 830-30-65-1, as follows:

### **Foreign Currency Matters—Translation of Financial Statements**

#### **Derecognition**

##### **> Sale or Liquidation of an Investment in a Foreign Entity**

**830-30-40-1** Upon sale or upon complete or substantially complete liquidation of an investment in a foreign entity, the amount attributable to that entity and accumulated in the translation adjustment component of equity shall be both:

- a. Removed from the separate component of equity
- b. Reported as part of the gain or loss on sale or liquidation of the investment for the period during which the sale or liquidation occurs.

**830-30-40-1A** A sale shall include:

- a. The loss of a controlling financial interest in an investment in a consolidated foreign entity resulting from circumstances contemplated by Subtopic 810-10 (see paragraph 810-10-55-4A)
- b. An acquirer obtaining control of an acquiree in which it held an equity interest, accounted for as an equity method investment, immediately before the acquisition date in a business combination achieved in stages (see paragraphs 805-10-25-9 through 25-10).

**> > Partial Sale of Ownership Interest**

**830-30-40-2** If a **reporting entity** sells part of its ownership interest in an equity method investment that is in a foreign entity, a pro rata portion of the accumulated translation adjustment component of equity attributable to that equity method investment shall be recognized in measuring the gain or loss on the sale. If the sale of part of an equity method investment that is a foreign entity results in the loss of significant influence, see paragraphs 323-10-35-37 through 35-39 for guidance on how to account for the pro rata portion of the accumulated translation adjustment component of equity attributable to the remaining investment. For guidance if an entity sells a noncontrolling interest part of its ownership interest in a consolidated foreign entity but still retains a controlling financial interest in the consolidated foreign entity, see paragraph 810-10-45-24 Subtopic 810-10.

**830-30-40-3** Although A partial liquidation liquidations by a subsidiary parent of net assets that make up a portion of a foreign entity may be considered to be similar to a sale of part of an ownership interest if the liquidation proceeds are distributed to the parent. However, extending pro rata recognition (release of cumulative translation adjustment into net income) to such partial liquidations would require that their substance be distinguished from ordinary dividends. Such a distinction is neither possible nor desirable. For these partial liquidations, no cumulative translation adjustment is released into net income until the criteria in paragraph 830-30-40-1 are met. This paragraph is restricted to clarifying that a sale includes an investor's partial, as well as complete, disposal of its ownership interest.

5. Add paragraph 830-30-65-1 and its related heading as follows:

**> Transition Related to Accounting Standards Update No. 2012-XX, Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity**

**830-30-65-1** The following represents the transition and effective date information related to Accounting Standards Update No. 2012-XX, Foreign

Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity:

- a. The pending content that links to this paragraph shall be effective for fiscal years, and interim periods within those years, beginning on or after [date to be inserted after exposure].
- b. An entity shall apply prospectively the pending content that links to this paragraph to all of the following:
  - 1. A sale or transfer of a subsidiary or group of assets that is a nonprofit activity or a business within the scope of paragraph 810-10-40-3A within a consolidated foreign entity after the effective date
  - 2. A sale of ownership interests in a foreign entity after the effective date
  - 3. A business combination achieved in stages. Prior periods shall not be adjusted.
- c. Earlier application of the pending content that links to this paragraph is permitted. If early application is elected, an entity shall apply the guidance from the beginning of an entity's fiscal year of adoption to account for the release of the cumulative translation adjustment in the same manner for all disposition and deconsolidation events and step acquisitions within that fiscal year.
- d. An entity shall provide the disclosures in paragraphs 250-10-50-1 through 50-3 in the period the entity adopts the pending content that links to this paragraph.

*The amendments in this proposed Update were approved for publication by the affirmative vote of six members of the Financial Accounting Standards Board. Mr. Linsmeier voted against publication of the amendments. His alternative view is set out at the end of the Basis for Conclusions.*

*Members of the Financial Accounting Standards Board:*

Leslie F. Seidman, *Chairman*  
Daryl E. Buck  
Russell G. Golden  
Thomas J. Linsmeier  
R. Harold Schroeder  
Marc A. Siegel  
Lawrence W. Smith

# Background Information, Basis for Conclusions, and Alternative View

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## Introduction

BC1. The following summarizes the Task Force's considerations in reaching the conclusions in this proposed Update. It includes the Board's basis for ratifying the Task Force conclusions when needed to supplement the Task Force's considerations. It also includes reasons for accepting certain approaches and rejecting others. Individual Task Force and Board members gave greater weight to some factors than to others.

## Background Information and Basis for Conclusions

BC2. Section 810-10-40 requires deconsolidation of a subsidiary and derecognition of a group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) whenever the parent ceases to hold a controlling financial interest in the subsidiary or group of assets. However, differing views in practice exist about whether the related cumulative translation adjustment should be released into net income upon the sale or transfer of such a subsidiary or group of assets within a foreign entity because, comparatively, the guidance in Section 830-30-40 requires a sale or complete or substantially complete liquidation of an investment in a foreign entity in order for the cumulative translation adjustment to be released into net income. Additionally, there are differing views as to whether Section 810-10-40 or Section 830-30-40 applies to the sale or transfer of a controlling financial interest in a foreign entity if the parent retains an investment or if a parent's equity method investment that is a foreign entity is increased to a consolidated investment by a business combination achieved in stages (also called a step acquisition).

BC3. Specifically, while Update 2010-02 expanded the scope of Subtopic 810-10 to include the loss of a controlling financial interest in a group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights), it did not amend Subtopic 830-30. Accordingly, diversity in practice exists for sales of subsidiaries and groups of assets that are nonprofit activities or businesses within a consolidated foreign entity and sales and transfers of investments in a foreign entity. Some entities apply Subtopic 810-10 and release the cumulative translation adjustment into net income upon the loss of a controlling financial interest for both events within a foreign entity and events involving an investment in a foreign entity. Other entities

apply the guidance in paragraph 830-30-40-1 and release the related cumulative translation adjustment into net income only if the sale or transfer represents the sale or complete or substantially complete liquidation of the foreign entity.

BC4. At the November 3, 2011 EITF meeting, the Task Force reached a consensus-for-exposure to apply the consolidation guidance (Section 810-10-40), rather than the foreign currency guidance (Section 830-30-40), for releasing the cumulative translation adjustment when a parent ceases to have a controlling financial interest in either a subsidiary or a group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a consolidated foreign entity. The Task Force also reached a consensus-for-exposure that the amount of cumulative translation adjustment that entities should release into net income should be determined using systematic and rational approaches that reflect an asset group's relative portion of the total cumulative translation adjustment associated with the foreign entity. Such approaches include (a) a pro rata portion of the cumulative translation adjustment attributable to the nonprofit activity or business within the scope of paragraph 810-10-40-3A based on the relative proportion of the net assets of the consolidated foreign entity at the date of disposition and (b) the cumulative translation adjustment attributable to specific assets and liabilities of the nonprofit activity or business within the scope of paragraph 810-10-40-3A within a consolidated foreign entity. The Board issued a proposed Update on December 6, 2011, with a 60-day comment period.

BC5. At the March 15, 2012 EITF meeting, the Task Force considered the feedback received from the comment letters and requested that the FASB staff perform additional analysis before affirming its consensus-for-exposure as a final consensus. Specifically, the Task Force requested that the staff perform user and preparer outreach to better understand their views on this Issue, including operational complexities. Additionally, the staff was asked to evaluate certain questions that may arise if the cumulative translation adjustment is released in accordance with the consolidation guidance in Section 810-10-40.

BC6. At the June 21, 2012 EITF meeting, the Task Force reached a new consensus-for-exposure on the basis of the FASB staff's outreach that the cumulative translation adjustment should be released into net income in accordance with Subtopic 830-30. Therefore, upon the sale or transfer of a subsidiary or group of assets that is a nonprofit activity or a business (other than the sale of in substance real estate or conveyance of oil and gas mineral rights) within a consolidated foreign entity, the cumulative translation adjustment should only be released into net income if such sale or transfer results in the complete or substantially complete liquidation of the foreign entity. The Task Force indicated that the new consensus-for-exposure addresses concerns about the ability of entities to apply a systematic and rational measurement approach to allocating the cumulative translation adjustment upon losing a controlling financial interest in a group of assets that is a nonprofit activity or a business within a foreign entity. Some Task Force members were concerned that stakeholders would

interpret the measurement principle to require a specific identification approach, which would be an unreasonable and operationally challenging expectation to set. Those Task Force members also were concerned that allocation would be operationally challenging because the cumulative translation adjustment is recognized at a broader unit of account (foreign entity) but releasing it would be at a more specific unit of account. The new consensus-for-exposure also reflects the Task Force's preference for the same approach to be applied to subsidiaries and groups of assets that are nonprofit activities or businesses within a foreign entity. Additionally, the new consensus-for-exposure is consistent with the understanding that many users do not feel strongly about when entities release the cumulative translation adjustment into net income and do not incorporate cumulative translation adjustments into their trend analyses.

BC7. At the June 21, 2012 EITF meeting, the Task Force also discussed the release of the cumulative translation adjustment upon occurrence of certain events related to an investment in a foreign entity. The Task Force reached a tentative conclusion that the cumulative translation adjustment should not be released into net income in a step acquisition but requested that the FASB staff perform additional analysis before proceeding further with discussions.

BC8. At the September 11, 2012 EITF meeting, the Task Force discussed the FASB staff's outreach and analysis on events related to an investment in a foreign entity. The outreach with practitioners indicated that most entities release the cumulative translation adjustment into net income upon the loss of a controlling financial interest in an investment in a consolidated foreign entity (irrespective of the form of any retained ownership interest) and upon a step acquisition involving an investment in a foreign entity. The outreach also confirmed that, in practice, most entities release a pro rata portion of the cumulative translation adjustment upon a partial sale of an equity method investment that is a foreign entity in accordance with paragraph 830-30-40-2. The Task Force reached a consensus-for-exposure that the entire amount of the cumulative translation adjustment should be released into net income upon the loss of a controlling financial interest in a foreign entity. Some Task Force members expressed support for this position by noting that this treatment is consistent with the view that the cumulative translation adjustment is tied to the net investment in a foreign entity. Accordingly, when the net investment in a foreign entity is deconsolidated or derecognized, and a gain or loss is recognized, it should include the cumulative translation adjustment. Similarly, the Task Force reached a consensus-for-exposure that the sale of part of an equity method investment that is a foreign entity should result in a pro rata release of the cumulative translation adjustment. The Task Force members concluded that this decision would be consistent with the consensus-for-exposure reached for the loss of a controlling financial interest. Additionally, the staff noted that, on the basis of outreach performed, entities generally believe that the guidance in paragraph 830-30-40-2 is clear for partial sales of an equity method investment that is a foreign entity.

BC9. The Task Force also discussed the release of the cumulative translation adjustment in a step acquisition involving an investment in a foreign entity and reached a consensus-for-exposure that the cumulative translation adjustment should be released in such transactions. The Task Force believes that this would be consistent with the intent of the Board in paragraphs B384 and B389 of FASB Statement No. 141 (revised 2007), *Business Combinations*, for requiring the remeasurement of the original equity interest in a step acquisition. As such, the Task Force believes that the reference to remeasurement in Statement 141R is a reference to the derecognition of an original investment in the acquiree when it is exchanged for a controlling financial interest in all of the underlying assets and liabilities of that entity. Several Task Force members expressed disagreement with the remeasurement requirement of Statement 141R and believe that the cumulative translation adjustment should only be released when an entity loses exposure to a net investment in a foreign entity. They do not believe that the cumulative translation adjustment should be released into net income because purchase events do not result in derecognition or deconsolidation events for the investment in a foreign entity. However, those Task Force members acknowledged that the consensus-for-exposure is consistent with existing U.S. GAAP, which is outside the scope of this Issue. Accordingly, these Task Force members could agree with the consensus-for-exposure given the confines of the proposed Update.

## Disclosures

BC10. The Task Force reached a consensus-for-exposure not to add disclosure requirements to those already required by Subtopics 830-30 and 810-10. The Task Force decided against proposing disclosure of the cumulative translation adjustment allocation method. Most Task Force members did not believe that this additional information would be useful to users of the financial statements.

## Transition and Early Adoption

BC11. The Task Force reached a consensus-for-exposure on prospective transition for the amendments in this proposed Update. Task Force members believe that the costs of a full retrospective application would outweigh the benefits of providing the information for users of financial statements. Additionally, because the following are nonrecurring events, the Task Force was not as concerned about comparative financial statements:

- a. The loss of a controlling financial interest in a subsidiary or a group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a consolidated foreign entity
- b. The loss of a controlling financial interest in a foreign entity

- c. The acquisition of a controlling financial interest in an acquiree in which it previously held an equity method investment immediately before the acquisition date (that is, a step acquisition).

BC12. The Task Force decided to permit early adoption of the proposed amendments. Some Task Force members questioned permitting early adoption if comparative financial statements are not required to be adjusted because such an option potentially reduces comparability among entities. However, the majority of Task Force members believe that early adoption should be permitted because there is already diversity among entities and the early application of the Task Force's decision would result in more useful information for those entities that choose to early adopt.

## Benefits and Costs

BC13. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Task Force's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC14. The Task Force believes that the amendments in this proposed Update will improve financial reporting by eliminating diversity in practice. Because the guidance would be applied prospectively, and no additional disclosures would be required, the Task Force does not anticipate that entities will incur significant costs as a result of applying the proposed amendments.

## Alternative View

BC15. Mr. Linsmeier disagrees with the publication of this proposed Update because he believes there is a fundamental, inherent inconsistency in the proposal that will create complexity in its application. The proposed guidance requires different accounting for the cumulative translation adjustment upon a sale that results in the loss of a controlling financial interest in a subsidiary within a foreign entity versus the similar sale of a subsidiary that is a foreign entity. Mr. Linsmeier does not believe that there should be differences in accounting for the cumulative translation adjustment upon sale of a subsidiary that results in the loss of a controlling financial interest depending on whether a foreign entity is defined broadly, such as, comprising multiple subsidiaries or groups of assets

that are businesses or nonprofit activities, or narrowly, such as comprising only one subsidiary. Mr. Linsmeier believes that the economics are the same in both circumstances and, therefore, the accounting for the cumulative translation adjustment should be identical.

BC16. The foreign currency risk of a foreign entity arises due to the foreign entity's functional currency being different from the functional currency of the parent. A foreign entity as defined by Topic 830 generates and expends cash in a currency other than the functional currency of the parent, which means that foreign currency risk is not created by transactions between the foreign entity and its parent but, instead, arises between the parent (the reporting entity) and the controlled foreign entity only when the parent is required to translate the foreign entity's financial statements to its reporting currency for purposes of preparing the consolidated financial statements. Therefore, the parent's foreign currency exposure to the foreign entity arises from an accounting requirement, that is, the translation of financial statements to the parent's reporting currency for purposes of consolidation, combination, or equity method, rather than economic exposure to foreign currency risk resulting from transactions with the foreign entity.

BC17. Topic 830 requires any gain or loss resulting from translating the functional currency of a foreign entity to the reporting currency of the parent to be reported outside net income in other comprehensive income as a cumulative translation adjustment. Under Topic 830, foreign currency gains or losses arising from transactions between a parent and a foreign entity are considered, however, real economic gains and losses and, therefore, are required to be reported in net income. Topic 830 also requires that when a parent loses control of a foreign entity, none of the cumulative translation adjustment is derecognized from equity unless all or substantially all of the foreign entity is liquidated because unless the foreign entity is substantially liquidated the foreign currency exposure remains as translation risk. If the foreign entity is substantially liquidated upon its sale, the proceeds from the sale can no longer be isolated in the foreign entity with a different functional currency because the foreign entity no longer has substance. Therefore, only in this situation does Topic 830 require derecognition of the cumulative translation adjustment. Mr. Linsmeier believes that this concept captures the economic exposure to foreign currency risk for sales resulting in the loss of control for all foreign entities with a functional currency different from the parent and, therefore, it should be applied consistently to both the sale of a subsidiary within a foreign entity and the sale of a subsidiary that is a foreign entity.

BC18. The proposed Update does not take that view. Instead, it requires that upon the loss of a controlling financial interest in a subsidiary that is a foreign entity, the cumulative translation adjustment should be derecognized even if substantially all of the foreign entity has not been sold. Comparatively, the loss of a controlling financial interest in a subsidiary within a foreign entity only would result in derecognition of the cumulative translation adjustment if such event represents the complete or substantially complete liquidation of the foreign entity

in which it resided. The proposed Update introduces that inconsistency based on guidance in Topic 810 that requires deconsolidation of a subsidiary whenever the parent ceases to hold a controlling financial interest. To deconsolidate a subsidiary upon loss of control, Topic 810 requires that the asset, liability, and equity accounts of the entire subsidiary be derecognized. The proposed Update relies on that guidance to require partial sales that result in the loss of control of foreign entities that comprise only one subsidiary to be accounted for differently from partial sales of foreign entities that comprise multiple subsidiaries or business activities, which instead are accounted for according to the guidance in Topic 830 described above.

BC19. Mr. Linsmeier was on the Board when the Topic 810 guidance was issued and believes that the derecognition guidance in that Topic only was introduced to ensure that the proper amount (100 percent) of any noncontrolling interest is derecognized upon the loss of a controlling financial interest in a less than wholly owned subsidiary (that is, if a parent holds less than 100 percent equity in a subsidiary and, therefore, recognizes a noncontrolling interest in its consolidated financial statements, Topic 810 provides guidance to derecognize such noncontrolling interest upon the loss of control over the subsidiary). That guidance did not contemplate the derecognition of any other equity accounts, including the cumulative translation adjustment account. Mr. Linsmeier, therefore, does not believe the guidance in Topic 810 is the appropriate guidance for determining how to account for the derecognition of equity accounts other than a noncontrolling interest. Mr. Linsmeier, therefore, would prefer that the proposed Update modify Topic 810 to indicate that when an entity derecognizes equity accounts upon the sale of a subsidiary in a foreign entity that results in the loss of control, the only equity accounts that can be derecognized under Topic 810 are those that pertain to the noncontrolling interest. Such an amendment would permit the derecognition guidance for cumulative translation adjustment in Topic 830 to be consistently applied across all foreign entities, thus simplifying the accounting in the proposed Update and consistently capturing the economics of those transactions.

## Amendments to the XBRL Taxonomy

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The FASB will expose for public comment the changes to the US GAAP Financial Reporting Taxonomy (UGT) that would be required were the provisions of this Exposure Draft finalized as proposed. The proposed changes to the UGT will be available on the FASB website on or about November 12, 2012.

The FASB will alert the public of the availability of proposed UGT changes and the deadline for comment through an announcement on its website and in its Action Alert e-mail service.