

FASB Interpretation No. 37

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Accounting for Translation Adjustments upon Sale of Part of an Investment in a Foreign Entity

an interpretation of FASB Statement No. 52

July 1983



Financial Accounting Standards Board
of the Financial Accounting Foundation
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FIN 37: Accounting for Translation Adjustments upon Sale of Part of an Investment in a Foreign Entity

an interpretation of FASB Statement No. 52

FIN 37 Summary

Upon sale or complete or substantially complete liquidation of an investment in a foreign entity, FASB Statement No. 52, *Foreign Currency Translation*, requires that the accumulated translation adjustment component of equity related to that investment be included in measuring the resulting gain or loss. Members of the Board's advisory group on implementation of Statement 52 and others have asked the Board to clarify the application of that requirement to a sale of part of an investment. This Interpretation indicates that the prescribed accounting applies to an enterprise's partial, as well as complete, disposal of its ownership interest.

This Interpretation is effective for transactions entered into after June 30, 1983.

INTRODUCTION

1. The Board has been asked to clarify the application of paragraph 14 of FASB Statement No. 52, *Foreign Currency Translation*, to the sale of part of an investment in a foreign entity. That paragraph states:

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 removed from the separate component of equity and shall be 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.

INTERPRETATION

2. If an enterprise sells part of its ownership interest in a foreign entity, a pro rata portion of the accumulated translation adjustment component of equity attributable to that investment shall be recognized in measuring the gain or loss on the sale.¹

EFFECTIVE DATE AND TRANSITION

3. This Interpretation shall be applied to the sale of part of an investment after June 30, 1983. Earlier application is encouraged. Restatement of previously issued financial statements is permitted but is not required.

This Interpretation was adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board.

Members of the Financial Accounting Standards Board:

Donald J. Kirk, *Chairman*
Frank E. Block
Victor H. Brown
John W. March
David Mosso
Robert T. Sprouse
Ralph E. Walters

Appendix: BACKGROUND INFORMATION

4. Paragraph 111 of Statement 52 explains the rationale for excluding translation adjustments from current operating results:

Translation adjustments do not exist in terms of functional currency cash flows. Translation adjustments are solely a result of the translation process and have no direct effect on reporting currency cash flows. Exchange rate changes have an indirect effect on the net investment that may be realized upon sale or liquidation, but that effect is related to the net investment and not to the operations of the investee. Prior to sale or liquidation, that effect is so uncertain and remote as to require that translation adjustments arising currently should not be reported as part of operating results.

Upon sale or upon complete or substantially complete liquidation of an investment in a foreign entity, paragraph 14 of Statement 52 requires that the accumulated translation adjustment attributable to that investment be removed from equity and included in determining the gain or loss on sale or liquidation. Paragraph 119 of Statement 52 indicates that:

. . . Sale and complete or substantially complete liquidation were selected because those events generally cause a related gain or loss on the net investment to be recognized in net income at that time. That procedure recognizes the "unrealized" translation adjustment as a component of net income when it becomes "realized."

5. Some members of the Board's advisory group on implementation of Statement 52 and others have questioned whether an enterprise's sale of part of its ownership interest in a foreign entity requires that a pro rata part of the accumulated translation adjustment attributable to that investment be recognized in measuring the gain or loss on the sale.

6. A proposed Interpretation, *Accounting for Translation Adjustments upon Sale of Part of an Investment in a Foreign Entity*, was released for public comment on February 16, 1983. The Board received 45 letters of comment on the proposed Interpretation. Certain of the comments received and the Board's consideration of them are discussed in paragraphs 7 and 8.

7. Respondents unanimously agreed with the Board's conclusion that the rationale stated in paragraph 119 of Statement 52 for recognition of translation adjustments in income when realized through sale of an investment requires proportionate recognition when an enterprise sells part of its ownership interest. However, some respondents believe that events other than a sale of some or all of an investor's ownership interest and complete or substantially complete liquidation of an investment should require recognition of translation adjustments in net income. Views concerning which additional events should require such recognition included a subsidiary's sale of additional stock, liquidations of assets and liabilities by a subsidiary, and any reduction in an investor's net investment, including dividends and the payment of long-term intercompany accounts.

8. As discussed in paragraphs 110-119 of Statement 52, whether events other than investor's sale of an ownership interest and complete or substantially complete liquidation should cause recognition of translation adjustments in net income was thoroughly considered by the Board before the issuance of that Statement. Information and developments that have come to the Board's attention since that time have not caused the Board to reconsider its conclusions with respect to that issue. For example, the Board is aware that a partial liquidation by a subsidiary 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 to such partial liquidations would require that their substance be distinguished from ordinary dividends. The Board is unconvinced that such a distinction is either possible or desirable. Further, paragraph

119 of Statement 52 states the Board's view that the information provided by recognizing "realized" translation adjustments in net income is probably marginal and gives the reasons for restricting recognition to sale and complete or substantially complete liquidation. Accordingly, this Interpretation is restricted to clarifying that a sale includes an investor's partial, as well as complete, disposal of its ownership interest.

Footnotes

FIN37, Footnote 1--Under APB Opinion No. 30, *Reporting the Results of Operations*, a gain or loss on disposal of part or all of a net investment may be recognized in a period other than that in which actual sale or liquidation occurs. Paragraph 14 of Statement 52 does not alter the period in which a gain or loss on sale or liquidation is recognized under existing generally accepted accounting principles.