

FINANCIAL ACCOUNTING SERIES



ACCOUNTING STANDARDS UPDATE

No. 2010-02
January 2010

Consolidation (Topic 810)

Accounting and Reporting for Decreases in
Ownership of a Subsidiary—a Scope Clarification

An Amendment of the *FASB Accounting Standards Codification*[™]

Financial Accounting Standards Board
of the Financial Accounting Foundation

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Summary

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

The objective of this Update is to address implementation issues related to the changes in ownership provisions in the Consolidation—Overall Subtopic (Subtopic 810-10) of the *FASB Accounting Standards Codification*[™], originally issued as FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*. Subtopic 810-10 establishes the accounting and reporting guidance for noncontrolling interests and changes in ownership interests of a subsidiary. An entity is required to deconsolidate a subsidiary when the entity ceases to have a controlling financial interest in the subsidiary. Upon deconsolidation of a subsidiary, an entity recognizes a gain or loss on the transaction and measures any retained investment in the subsidiary at fair value. The gain or loss includes any gain or loss associated with the difference between the fair value of the retained investment in the subsidiary and its carrying amount at the date the subsidiary is deconsolidated. In contrast, an entity is required to account for a decrease in its ownership interest of a subsidiary that does not result in a change of control of the subsidiary as an equity transaction.

While Subtopic 810-10 provides general guidance on accounting for the decreases in ownership of a subsidiary, including a deconsolidation, some constituents raised concerns that the guidance appears to conflict with the gain or loss treatment or derecognition criteria of other U.S. generally accepted accounting principles (GAAP), such as the guidance for sales of real estate, transfers of financial assets, conveyances of oil and gas mineral rights, and transactions with equity method investees.

Some constituents also questioned whether the Board intended for the decrease in ownership provisions of Subtopic 810-10 to apply to all entities because a subsidiary is defined as an entity, including an unincorporated entity such as a partnership or trust, in which another entity, known as its parent, holds a controlling financial interest. Those constituents were concerned that such an interpretation could result in the accounting for a transaction being driven by its form rather than its substance. For example, different accounting might be applied to a transaction involving the same underlying assets depending on whether those assets were transferred in asset or entity form.

Who Is Affected by the Amendments in This Update?

The amendments in this Update affect accounting and reporting by an entity that experiences a decrease in ownership in a subsidiary that is a business or nonprofit activity. The amendments also affect accounting and reporting by an

entity that exchanges a group of assets that constitutes a business or nonprofit activity for an equity interest in another entity.

The amendments affect entities that have previously adopted the decrease in ownership provisions of Subtopic 810-10 (originally issued as Statement 160) but have applied the guidance in that Subtopic differently from the guidance provided in this Update. The guidance in this Update also improves the disclosures for fair value measurements relating to retained investments in a deconsolidated subsidiary or a preexisting interest held by an acquirer in a business combination.

What Are the Main Provisions?

Accounting Guidance

This Update provides amendments to Subtopic 810-10 and related guidance within U.S. GAAP to clarify that the scope of the decrease in ownership provisions of the Subtopic and related guidance applies to the following:

1. A subsidiary or group of assets that is a business or nonprofit activity
2. A subsidiary that is a business or nonprofit activity that is transferred to an equity method investee or joint venture
3. An exchange of a group of assets that constitutes a business or nonprofit activity for a noncontrolling interest in an entity (including an equity method investee or joint venture).

The amendments in this Update also clarify that the decrease in ownership guidance in Subtopic 810-10 does not apply to the following transactions even if they involve businesses:

1. Sales of in substance real estate. Entities should apply the sale of real estate guidance in Subtopics 360-20 (Property, Plant, and Equipment) and 976-605 (Retail/Land) to such transactions.
2. Conveyances of oil and gas mineral rights. Entities should apply the mineral property conveyance and related transactions guidance in Subtopic 932-360 (Oil and Gas—Property, Plant, and Equipment) to such transactions.

If a decrease in ownership occurs in a subsidiary that is not a business or nonprofit activity, an entity first needs to consider whether the substance of the transaction causing the decrease in ownership is addressed in other U.S. GAAP, such as transfers of financial assets, revenue recognition, exchanges of nonmonetary assets, sales of in substance real estate, or conveyances of oil and gas mineral rights, and apply that guidance as applicable. If no other guidance exists, an entity should apply the guidance in Subtopic 810-10.

Disclosures

The amendments in this Update expand the disclosures about the deconsolidation of a subsidiary or derecognition of a group of assets within the scope of Subtopic 810-10. In addition to existing disclosures, an entity should disclose the following for such a deconsolidation or derecognition:

1. The valuation techniques used to measure the fair value of any retained investment in the former subsidiary or group of assets and information that enables users of its financial statements to assess the inputs used to develop the measurement
2. The nature of continuing involvement with the subsidiary or entity acquiring the group of assets after it has been deconsolidated or derecognized
3. Whether the transaction that resulted in the deconsolidation of the subsidiary or the derecognition of the group of assets was with a related party or whether the former subsidiary or entity acquiring the group of assets will be a related party after deconsolidation.

An entity also should disclose the valuation techniques used to measure an equity interest in an acquiree held by the entity immediately before the acquisition date in a business combination achieved in stages.

How Do the Main Provisions Differ from Current U.S. GAAP and Why Are They an Improvement?

The amendments clarify, but do not necessarily change, the scope of current U.S. GAAP. The Board believes that clarifying the decrease in ownership provisions of Subtopic 810-10 removes the potential conflict between guidance in that Subtopic and asset derecognition and gain or loss recognition guidance that may exist in other U.S. GAAP. The Board believes that clarifying that guidance improves current U.S. GAAP by limiting potential diversity in practice and emphasizing that the accounting for such transactions is based on their substance rather than their form.

When Will the Amendments Be Effective?

The amendments in this Update are effective beginning in the period that an entity adopts Statement 160 (now included in Subtopic 810-10). If an entity has previously adopted Statement 160 as of the date the amendments in this Update are included in the Accounting Standards Codification, the amendments in this Update are effective beginning in the first interim or annual reporting period ending on or after December 15, 2009. The amendments in this Update should be applied retrospectively to the first period that an entity adopted Statement 160.

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

The amendments in this Update may result in differences in accounting and reporting between U.S. GAAP and IFRS. IFRS guidance on accounting for decreases in ownership of subsidiaries is similar to guidance in U.S. GAAP. IFRS guidance, however, applies to all subsidiaries, even those that are not businesses or nonprofit activities or those that involve sales of in substance real estate or conveyances of oil and gas mineral rights. The decrease in ownership guidance in IFRS also does not address whether that guidance should be applied to transactions involving nonsubsidiaries that are businesses or nonprofit activities. Despite those potential differences, the Board concluded that the guidance should be clarified so that it is applied consistently and does not conflict with other guidance in U.S. GAAP.

Amendments to the *FASB Accounting Standards Codification*TM

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–20. In some cases, not only are the amended paragraphs shown but also the preceding and following paragraphs are shown to put the change in context. Terms from the Master Glossary are in **bold** type. Added text is underlined and deleted text is ~~struck out~~.

Amendment to Master Glossary

2. Add the Master Glossary term *Nonprofit Activity*, with a link to transition paragraph 810-10-65-3, as follows: {PROCESSORS: Link to the first occurrence in each Subsection of Subtopic 810-10}

Nonprofit Activity

An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing benefits, other than goods or services at a profit or profit equivalent, as a fulfillment of an entity's purpose or mission (for example, goods or services to beneficiaries, customers, or members). As with a not-for-profit entity, a nonprofit activity possesses characteristics that distinguish it from a {x-reference link} business {x-reference link} or a for-profit business entity.

Amendments to Subtopic 810-10

3. Add paragraph 810-10-40-3A and amend its related heading, with a link to transition paragraph 810-10-65-3, 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.

4. Amend paragraphs 810-10-40-4 through 40-5, with a link to transition paragraph 810-10-65-3, as follows:

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

810-10-40-5 If a parent deconsolidates a subsidiary or derecognizes a group of assets through a nonreciprocal transfer to **owners**, such as a spinoff, the accounting guidance in Subtopic 845-10, ~~applies~~ applies. Otherwise, a parent shall account for the deconsolidation of a subsidiary or derecognition of a group of assets specified in paragraph 810-10-40-3A by recognizing a gain or loss in net income attributable to the parent, measured as the difference between:

- a. The aggregate of all of the following:
 1. The fair value of any consideration received
 2. The fair value of any retained noncontrolling investment in the former subsidiary or group of assets at the date the subsidiary is deconsolidated or the group of assets is derecognized
 3. The carrying amount of any noncontrolling interest in the former subsidiary (including any accumulated other comprehensive income attributable to the noncontrolling interest) at the date the subsidiary is deconsolidated.

- b. The carrying amount of the former subsidiary's assets and ~~liabilities~~ liabilities or the carrying amount of the group of assets.

5. Add paragraph 810-10-45-21A, with a link to transition paragraph 810-10-65-3, as follows:

Other Presentation Matters

> Changes in a Parent's Ownership Interest in a Subsidiary

810-10-45-21A The guidance in paragraphs 810-10-45-22 through 45-24 applies to the following:

- a. Transactions that result in an increase in ownership of a subsidiary
- b. Transactions that result in a decrease in ownership of either of the following while the parent retains a controlling financial interest in the subsidiary:
 - 1. A subsidiary that is a business or a **nonprofit activity**, except for either of the following:
 - i. A sale of in substance real estate (for guidance on a sale of in substance real estate, see Subtopic 360-20 or 976-605)
 - ii. 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).
 - 2. A subsidiary that is not a business or a nonprofit activity 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:
 - i. Topic 605 on revenue recognition
 - ii. Topic 845 on exchanges of nonmonetary assets
 - iii. Topic 860 on transferring and servicing financial assets
 - iv. Topic 932 on conveyances of mineral rights and related transactions
 - v. Topic 360 or 976 on sales of in substance real estate.

810-10-45-22 A parent's ownership interest in a subsidiary might change while the parent retains its controlling financial interest in the subsidiary. For example, a parent's ownership interest in a subsidiary might change if any of the following occur:

- a. The parent purchases additional ownership interests in its subsidiary.
- b. The parent sells some of its ownership interests in its subsidiary.
- c. The subsidiary reacquires some of its ownership interests.
- d. The subsidiary issues additional ownership interests.

810-10-45-23 Changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary shall be accounted for as equity transactions (investments by owners and distributions to owners acting in their

capacity as owners). Therefore, no gain or loss shall be recognized in consolidated net income or comprehensive income. The carrying amount of the noncontrolling interest shall be adjusted to reflect the change in its ownership interest in the subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted shall be recognized in equity attributable to the parent. Example 1 (paragraph 810-10-55-4B) illustrates the application of this guidance.

810-10-45-24 A change in a parent's ownership interest might occur in a subsidiary that has accumulated other comprehensive income. If that is the case, the carrying amount of accumulated other comprehensive income shall be adjusted to reflect the change in the ownership interest in the subsidiary through a corresponding charge or credit to equity attributable to the parent. Example 1, Case C (paragraph 810-10-55-4F) illustrates the application of this guidance.

6. Amend paragraph 810-10-50-1B, with a link to transition paragraph 810-10-65-3, as follows:

Disclosure

810-10-50-1B In the period that either# a subsidiary is deconsolidated, deconsolidated or a group of assets is derecognized in accordance with paragraph 810-10-40-3A, the parent shall disclose all of the following:

- a. The amount of any gain or loss recognized in accordance with paragraph 810-10-40-5
- b. The portion of any gain or loss related to the remeasurement of any retained investment in the former subsidiary or group of assets to its fair value
- c. The caption in the income statement in which the gain or loss is recognized unless separately presented on the face of the income ~~statement~~ statement
- d. A description of the valuation technique(s) used to measure the fair value of any direct or indirect retained investment in the former subsidiary or group of assets
- e. Information that enables users of the parent's financial statements to assess the inputs used to develop the fair value in item (d)
- f. The nature of continuing involvement with the subsidiary or entity acquiring the group of assets after it has been deconsolidated or derecognized
- g. Whether the transaction that resulted in the deconsolidation or derecognition was with a related party
- h. Whether the former subsidiary or entity acquiring a group of assets will be a related party after deconsolidation.

7. Add paragraph 810-10-65-3 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2010-02, Consolidation (Topic 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary—a Scope Clarification

810-10-65-3 The following represents the transition and effective date information related to Accounting Standards Update No. 2010-02, *Consolidation (Topic 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary—a Scope Clarification*:

- a. The following applies to all entities except for not-for-profit entities:
 1. An entity has not adopted the pending content that links to paragraph 810-10-65-1, the pending content that links to this paragraph shall be effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2008.
 2. An entity has adopted the pending content that links to paragraph 810-10-65-1, the pending content that links to this paragraph shall be effective for interim and annual reporting periods ending on or after December 15, 2009.
 3. An entity that is applying the transition guidance in (a)(2) shall:
 - i. Retrospectively apply the pending content that links to this paragraph to interim and annual reporting periods beginning on or after December 15, 2008
 - ii. Provide the disclosures in paragraphs 250-10-50-1 through 50-3 when presenting the period that the entity adopts the pending content that links to this paragraph.
- b. The following applies to not-for-profit entities:
 1. The pending content that links to this paragraph shall be effective for the first set of initial or annual financial statements for a reporting period beginning on or after December 15, 2009.

8. Amend paragraph 810-10-00-1, by adding the following items to the table, as follows:

810-10-00-1 The following table identifies the changes made to this Subtopic:

Paragraph Number	Action	Accounting Standards Update	Date
Nonprofit Activity	Added	2010-02	01/06/2010
810-10-40-3A	Added	2010-02	01/06/2010
810-10-40-4	Amended	2010-02	01/06/2010
810-10-40-5	Amended	2010-02	01/06/2010
810-10-45-21A	Added	2010-02	01/06/2010
810-10-50-1B	Amended	2010-02	01/06/2010
810-10-65-3	Added	2010-02	01/06/2010

Amendments to Subtopic 845-10

9. Amend paragraph 845-10-15-15, with no link to a transition paragraph, as follows:

Nonmonetary Transactions—Overall

Scope and Scope Exceptions

845-10-15-15 Paragraph 360-20-15-10(c) indicates that the accounting for exchanges of real estate is covered by this Topic and not by that Subtopic 360-20. However, under paragraph 845-10-25-6, an exchange of nonmonetary assets that would otherwise be based on recorded amounts under paragraph 845-10-30-3 but that involves boot shall be considered a monetary (rather than nonmonetary) transaction if the boot is at least 25 percent of the fair value of the exchange. As a result, the guidance is different for exchanges of real estate held for sale in the ordinary course of {Add GLOSSARY LINK}**business**{Add GLOSSARY LINK} for real estate to be sold in the same line of business when the boot is at least 25 percent of the fair value of the exchange (referred to as exchanges of similar real estate).

10. Amend paragraph 845-10-15-20, with a link to transition paragraph 810-10-65-3, as follows:

845-10-15-19 The guidance in the Exchanges of a Nonfinancial Asset for a Noncontrolling Ownership Interest Subsections applies to nonmonetary transfers of a nonfinancial asset (or assets) for a noncontrolling ownership interest.

845-10-15-20 The guidance in these Subsections does not apply to the following types of transfers:

- a. Transfers between a **joint venture** and its **owners**
- b. Capital contributions of real estate in return for an unconsolidated real estate investment (for guidance, see Section 970-323)
- c. Transfers of real estate in **exchange** for nonmonetary assets other than real estate (for guidance on the recognition of profit from the exchange, see Subtopic 976-605 and Section 360-20-40)
- d. Transfers of assets used in oil- and gas-producing activities (including either proved or unproved properties) in exchange for other assets also used in oil- and gas-producing activities (for guidance, see paragraph ~~932-360-40-7~~ 932-360-40-7)
- e. A deconsolidation of a **subsidiary** ~~(for guidance, see Subtopic 810-10, including paragraph 810-10-55-1A)~~ that is a business or nonprofit activity that is within the scope of Subtopic 810-10 (see paragraph 810-10-40-3A)
- f. A derecognition of a group of assets that constitutes a business or nonprofit activity that is within the scope of Subtopic 810-10 (see paragraph 810-10-40-3A).

11. Amend paragraph 845-10-30-3, with no link to a transition paragraph, as follows:

845-10-30-3 A nonmonetary exchange shall be measured based on the recorded amount (after reduction, if appropriate, for an indicated impairment of value as discussed in paragraph 360-10-40-4) of the nonmonetary asset(s) relinquished, and not on the fair values of the exchanged assets, if any of the following conditions apply:

- a. The fair value of neither the asset(s) received nor the asset(s) relinquished is determinable within reasonable limits.
- b. The transaction is an exchange of a product or property held for sale in the ordinary course of ~~{Add GLOSSARY LINK}~~**business**~~{Add GLOSSARY LINK}~~ for a product or property to be sold in the same line of business to facilitate sales to customers other than the parties to the exchange.
- c. The transaction lacks commercial substance (see the following paragraph).

12. Amend paragraph 845-10-30-22, with a link to transition paragraph 810-10-65-3, as follows:

Initial Measurement

845-10-30-22 In a monetary exchange (required to be accounted for at fair value), the gain recognized on a monetary exchange under paragraph 845-10-

25-9 shall be computed in a manner consistent with the guidance in paragraphs ~~845-10-30-25~~845-10-30-26 through 30-27.

13. Amend paragraph 845-10-30-25 and its related headings, with a link to transition paragraph 810-10-65-3, as follows:

> Implementation Guidance

>> Scope Application to Deconsolidation of a Subsidiary

~~**845-10-30-25** This Subtopic provides guidance for deconsolidation of a subsidiary. If an asset one entity transfers to a second entity in exchange for a **noncontrolling interest** in that second entity is a subsidiary, the gain or loss of a controlling financial interest in that subsidiary is accounted for in accordance with this Subtopic. Paragraph 810-10-55-1A explains that, if the asset Entity A transfers to Entity B in exchange for a noncontrolling interest in Entity B is a subsidiary, the gain or loss of a controlling financial interest in that subsidiary is a deconsolidation accounted for in accordance with the guidance in Topic 810. Otherwise, this nonmonetary exchange is required to be accounted for at fair value and full or partial gain recognition is required.~~The following transactions shall be accounted for as a deconsolidation in accordance with paragraphs 810-10-40-3A through 40-5, except if the transaction is the sale of in substance real estate (for guidance on a sale of in substance real estate, see Subtopic 360-20 or 976-605) or is a conveyance of oil and gas mineral rights (for guidance on conveyances of oil and gas mineral rights, see Subtopic 932-360):

- a. An entity transfers a subsidiary that is a business or **nonprofit activity** to a second entity in exchange for a **noncontrolling interest** in that second entity
- b. An entity transfers a group of assets that constitute a business or nonprofit activity to a second entity in exchange for a noncontrolling interest in that second entity.

14. Add paragraph 845-10-30-25A, with a link to transition paragraph 810-10-65-3, as follows:

845-10-30-25A Except for exchanges described in the preceding paragraph, an exchange of a nonmonetary asset for a noncontrolling ownership interest in a second entity shall be accounted for at fair value and full or partial gain recognition also is required. Paragraphs ~~845-10-30-26~~ through ~~30-27~~ provide guidance on how the gain or loss is to be determined.

15. Amend paragraph 845-10-00-1 as follows:

845-10-00-1 ~~No updates have been made to this subtopic.~~ The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
Nonprofit Activity	Added	2010-02	01/06/2010
845-10-15-20	Amended	2010-02	01/06/2010
845-10-30-22	Amended	2010-02	01/06/2010
845-10-30-25	Amended	2010-02	01/06/2010
845-10-30-25A	Added	2010-02	01/06/2010

Amendments to Subtopic 323-10

16. Amend paragraph 323-10-30-2, with a link to transition paragraph 810-10-65-3, as follows:

Investments—Equity Method and Joint Ventures—Overall

Initial Measurement

323-10-30-2 Except as provided in the following sentence, an~~AA~~ investor shall measure an investment in the common stock of an investee (including a joint venture) initially at cost in accordance with the guidance in Section 805-50-30. An investor shall initially measure, at fair value, a retained investment in the common stock of an investee (including a joint venture) in a deconsolidation transaction in accordance with paragraphs 810-10-40-3A through 40-5.

17. Amend paragraph 323-10-35-7, with a link to transition paragraph 810-10-65-3, as follows:

Subsequent Measurement

323-10-35-7 Intra-entity profits and losses shall be eliminated until realized by the investor or investee as if the investee were consolidated. Specifically, intra-entity profits or losses on assets still remaining with an investor or investee shall be eliminated, giving effect to any income taxes on the intra-entity ~~transactions~~ transactions, except for both of the following:

- a. A transaction with an investee (including a joint venture investee) that is accounted for as a deconsolidation of a subsidiary or a derecognition of

a group of assets in accordance with paragraphs 810-10-40-3A through 40-5

- b. A transaction with an investee (including a joint venture investee) that is accounted for as a change in ownership transaction in accordance with paragraphs 810-10-45-21A through 45-24.

18. Amend paragraph 323-10-00-1 as follows:

323-10-00-1 ~~No updates have been made to this Subtopic.~~ The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
323-10-30-2	Amended	2010-02	01/06/2010
323-10-35-7	Amended	2010-02	01/06/2010

Amendments to Subtopic 805-10

Business Combinations—Overall

Disclosure

19. Amend paragraph 805-10-50-2, with a link to transition paragraph 810-10-65-3, as follows:

805-10-50-2 To meet the objective in the preceding paragraph, the acquirer shall disclose the following information for each business combination that occurs during the reporting period:

- a. The name and a description of the **acquiree**
- b. The **acquisition date**
- c. The percentage of voting **equity interests** acquired
- d. The primary reasons for the business combination and a description of how the acquirer obtained **control** of the acquiree
- e. For transactions that are recognized separately from the acquisition of assets and assumptions of liabilities in the business combination (see paragraph 805-10-25-20), all of the following:
 1. A description of each transaction
 2. How the acquirer accounted for each transaction
 3. The amounts recognized for each transaction and the line item in the financial statements in which each amount is recognized
 4. If the transaction is the effective settlement of a preexisting relationship, the method used to determine the settlement amount.

- f. The disclosure of separately recognized transactions required in (e) shall include the amount of acquisition-related costs, the amount recognized as an expense, and the line item or items in the income statement in which those expenses are recognized. The amount of any issuance costs not recognized as an expense and how they were recognized also shall be disclosed.
- g. In a business combination achieved in stages, ~~both~~ all of the following:
1. The acquisition-date **fair value** of the equity interest in the acquiree held by the acquirer immediately before the acquisition date
 2. The amount of any gain or loss recognized as a result of remeasuring to fair value the equity interest in the acquiree held by the acquirer immediately before the business combination (see paragraph 805-10-25-10) and the line item in the income statement in which that gain or loss is ~~recognized~~ recognized
 3. The valuation technique(s) used to measure the acquisition-date fair value of the equity interest in the acquiree held by the acquirer immediately before the business combination
 4. Information that enables users of the acquirer's financial statements to assess the inputs used to develop the fair value measurement of the equity interest in the acquiree held by the acquirer immediately before the business combination.
- h. If the acquirer is a **public business entity**, all of the following:
1. The amounts of revenue and earnings of the acquiree since the acquisition date included in the consolidated income statement for the reporting period
 2. The revenue and earnings of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period (supplemental pro forma information)
 3. If comparative financial statements are presented, the revenue and earnings of the combined entity for the comparable prior reporting period as though the acquisition date for all business combinations that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period (supplemental pro forma information).

If disclosure of any of the information required by (h) is impracticable, the acquirer shall disclose that fact and explain why the disclosure is impracticable. In this context, the term **{add Italics}** impracticable **{add Italics}** has the same meaning as in paragraph 250-10-45-9.

20. Amend paragraph 805-10-00-1 as follows:

805-10-00-1 ~~No updates have been made to this subtopic.~~ The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
805-10-50-2	Amended	2010-02	01/06/2010

The amendments in this Update were adopted by the affirmative vote of three members of the Financial Accounting Standards Board; Messrs. Linsmeier and Smith dissented.

Messrs. Linsmeier and Smith dissent to the issuance of the guidance in this Update because they do not agree with excluding transactions involving in substance real estate or oil and gas businesses from the scope of Subtopic 810-10. In their view, the accounting for decreases in ownership should be consistent for all businesses, and guidance for sales of real estate or conveyances of oil and gas mineral rights created over 25 years ago should not be used as an exception to the accounting prescribed by the Board less than 2 years ago. Both Board members noted that the issues of continuing involvement that are addressed in Subtopics 360-20, 976-605, and 932-360 exist in many industries, and, therefore, there is no basis to specify unique accounting for decreases in ownership of businesses in the real estate or oil and gas industries.

Mr. Linsmeier also dissents to the issuance of the guidance in this Update because it creates new differences between U.S. GAAP and IFRS a short time after the completion of a joint project with the IASB to improve and obtain convergence on the financial reporting for noncontrolling interests. He believes that once the FASB and the IASB have completed a joint project with largely convergent guidance, any subsequent modifications to that guidance should be completed jointly with the IASB.

Members of the Financial Accounting Standards Board:

Robert H. Herz, *Chairman*
Thomas J. Linsmeier
Leslie F. Seidman
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

BC1. The following summarizes the Board's considerations in reaching the conclusions in this Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC2. The amendments in this Update clarify the scope of the decrease in ownership provisions of Subtopic 810-10. The amendments:

- a. Clarify that the decrease in ownership guidance in Subtopic 810-10 applies to a subsidiary or group of assets that constitutes a business or nonprofit activity
- b. Clarify the accounting for the transfer of a group of assets that constitutes a business or nonprofit activity in exchange for an equity interest in another entity
- c. Clarify the accounting for transactions involving transfers of subsidiaries to equity method investees including joint ventures
- d. Clarify that the guidance in Subtopic 810-10 does not apply to transactions that are either sales of in substance real estate or conveyances of oil and gas mineral rights
- e. Improve the disclosures about fair value measurements in business acquisitions or deconsolidation transactions.

BC3. The amendments do not affect the guidance relating to when a subsidiary should be consolidated or to transactions that increase an entity's ownership in a subsidiary.

Background Information

BC4. Subtopic 810-10 provides guidance on the accounting for transactions with consolidated subsidiaries. Much of the guidance in that Subtopic was previously included in ARB No. 51, *Consolidated Financial Statements*, which was amended by Statement 160. Statement 160 was issued in December 2007 and became effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2008. Among other things, Statement 160 changed the accounting for transactions that resulted in changes in a parent's ownership interest in a subsidiary, including the deconsolidation of a subsidiary. U.S. GAAP on consolidation requires that changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for as equity transactions. U.S. GAAP on consolidation also requires a parent to deconsolidate a subsidiary as of the date the parent ceases

to have a controlling financial interest in the subsidiary. Upon deconsolidation, the parent accounts for the deconsolidation of the subsidiary by recognizing any retained investment in the subsidiary at fair value and a gain or loss in net income attributable to the parent. U.S. GAAP on consolidation provides no exceptions to this treatment other than for a deconsolidation through a nonreciprocal transfer to owners, such as a spinoff, for which Topic 845 (Nonmonetary Transactions) applies. Accordingly, the deconsolidation model within Subtopic 810-10 does not include an evaluation of continuing involvement or gain realizability before recognizing the transaction as a divestiture with full gain recognition.

BC5. While Subtopic 810-10 provides general guidance on accounting for decreases in ownership of a subsidiary, some constituents raised concerns that the general guidance appears to conflict with the gain or loss treatment and derecognition criteria of other U.S. GAAP, such as the guidance for sales of in substance real estate, transfers of financial assets, and transactions with equity method investees.

BC6. Some constituents also questioned whether the Board intended for the decrease in ownership provisions of Subtopic 810-10 to apply to all entities because a subsidiary is defined as an entity, including an unincorporated entity such as a partnership or trust, in which another entity, known as its parent, holds a controlling financial interest. Other constituents questioned whether that guidance also should apply to transfers of a group of assets that qualify as a business if the business is not transferred in entity form. Those constituents were concerned that interpretations of Subtopic 810-10 could result in the accounting for a transaction being driven by its form rather than its substance.

BC7. In September 2008, Issue No. 08-10, "Selected Statement 160 Implementation Questions," was added to the agenda of the Emerging Issues Task Force (EITF) to address those concerns. A consensus-for-exposure was exposed for comment in November 2008. The consensus-for-exposure was largely consistent with the decisions reached by the Board in this Update, except that the decrease in ownership provisions in U.S. GAAP on consolidation would have only applied to a subsidiary that was a substantive entity rather than a business. In January 2009, the EITF deliberated the comment letters that had been received on the consensus-for-exposure. During those deliberations, the EITF discussed constituents' requests for clarification on what a *substantive entity* was because the term was not defined. The EITF did not reach a consensus on how to resolve that question. After the January 2009 EITF meeting, a project was added to the Board's agenda to address the issues discussed in Issue 08-10 to clarify the Board's intent relating to the scope of the decrease in ownership provisions in U.S. GAAP on consolidation.

BC8. In August 2009, the Board issued a proposed Accounting Standards Update, *Consolidation (Topic 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary—a Scope Clarification*, for a 30-day comment period.

The Board received seven comment letters in response to questions in the proposed Update.

Scope

BC9. The amendments in the proposed Update limited the scope of the decrease in ownership provisions of Subtopic 810-10 to businesses or nonprofit activities. The Board concluded that applying those provisions only to businesses aligns the accounting for both business combinations and dispositions by recognizing any preexisting interest or retained investment in a subsidiary at its fair value. The Board favored this symmetry because the gain or loss of control of a business is considered to be a significant economic event for which remeasurement of a preexisting interest or retained investment to fair value is a more representationally faithful depiction of the transaction. In addition, the Board reasoned that limiting the decrease in ownership provisions of Subtopic 810-10 to businesses or nonprofit activities would remove the potential conflict in asset derecognition or gain or loss guidance that may exist in other U.S. GAAP and should limit the ability to use a legal entity to avoid the accounting consequences of other U.S. GAAP. For example, some Board members were concerned that an entity may place financial assets into a subsidiary and apply Subtopic 810-10 to sales of equity interests in that subsidiary in an effort to circumvent the guidance in Topic 860 on transfers of interests in financial assets (including the guidance on whether such transfers represent sales or secured borrowings).

BC10. Most respondents supported the Board's conclusion that the decreases in ownership provisions of Subtopic 810-10 should apply to businesses or nonprofit activities. Some respondents expressed concerns about the reliance on the business definition. One respondent suggested that the Board should conduct additional research to determine whether the definition of a business introduced by Topic 805 (originally issued as FASB Statement No. 141 (revised 2007), *Business Combinations*) is well understood and applied consistently. Another respondent suggested that there should be a rebuttable presumption, rather than an absolute requirement, in which an entity that is a business should be deconsolidated and in which the entity's assets should be derecognized upon loss of control. The Board concluded that Subtopic 810-10 should apply to decreases in ownership of a business. The Board also concluded that entities will need to use judgment in determining whether the attributes of a business exist. In the Board's view, further analysis of the business definition should not occur until it performs a post-implementation review of the guidance in Topics 805 and 810. The Board plans to perform post-implementation reviews of new guidance after that guidance has been effective for at least two years.

BC11. The amendments in the proposed Update did not prescribe the accounting that should be applied if an entity sells a partial interest or an entire interest in a subsidiary that is not a business or nonprofit activity. The Board concluded that an entity should evaluate the substance of the subsidiary and the

transaction and apply applicable guidance as appropriate. Examples of other U.S. GAAP include revenue recognition guidance in Topic 605, transfers of financial assets guidance in Topic 860, and sales of real estate guidance in Topics 360 and 976. In the Board's view, the framework for applying accounting principles in Topic 105 provided sufficient guidance for selecting the appropriate accounting principle if an entity concludes that U.S. GAAP guidance is not specified for a transaction.

BC12. Several respondents requested that the Board provide clarifying guidance on how an entity should account for the decrease in ownership of a subsidiary that is not a business. Those respondents said that not providing guidance could create confusion and increase the potential for diversity in practice. The Board decided to clarify the guidance for such transactions in this Update by requiring an entity to first consider whether other guidance exists that addresses the substance of the transaction. If no such guidance exists, then Subtopic 810-10 should be applied.

BC13. The amendments in the proposed Update excluded sales of in substance real estate from the scope of the decrease in ownership provisions of Subtopic 810-10 even if the subsidiary involved is a business. All respondents supported this decision. In the Board's view, the accounting for decreases in ownership of a business should not differ because of industry factors. However, existing U.S. GAAP on accounting for sales of in substance real estate (Subtopics 360-20 and 976-605) includes extensive guidance on how continuing involvement affects sale accounting and profit recognition even when the real estate is a business. In contrast, there is very little guidance on how continuing involvement affects whether an investor has lost control of a subsidiary; therefore, the outcome under different U.S. GAAP could lead to inconsistent results.

BC14. The Board resolved this conflict by requiring an entity to continue to apply the guidance in Subtopics 360-20 and 976-605 for transactions that are sales of in substance real estate. The Board noted that continuing involvement is common in real estate transactions whether or not they are in the form of subsidiaries. The Board also considered input from financial statement users in the real estate industry who prefer that real estate entities continue to apply the sales of real estate guidance to those transactions. User feedback suggested that requiring different accounting for sales of real estate that are businesses from those that are not businesses would increase the complexity of an entity's financial statements and make it more difficult to evaluate performance. The Board's revenue recognition project may significantly change the accounting for sales of real estate. Users prefer that any such change to the revenue recognition guidance for the industry occur at one time to limit financial statement complexity and provide comparability within the industry.

BC15. The Board also discovered an inconsistency between existing U.S. GAAP on accounting for conveyances of oil and gas mineral rights (Subtopic 932-360) and the deconsolidation guidance in Subtopic 810-10. Subtopic 932-

360 includes guidance on continuing involvement and gain realizability considerations that is inconsistent with the deconsolidation guidance in Subtopic 810-10. The Board resolved this inconsistency by requiring entities to continue to apply the conveyance guidance in Subtopic 932-360 to those transactions, even if a business was conveyed. The Board noted certain complexities associated with conveyances on oil and gas mineral rights, such as proportionate consolidation and the full-cost method for inventory accounting, and was concerned about requiring the guidance in Subtopic 810-10 to be applied to conveyance transactions without further consideration of those complexities. The Board decided that providing timely clarification of the scope of Subtopic 810-10 outweighs the need to further consider the complexities within the oil and gas industry.

BC16. The amendments in the proposed Update clarified that the accounting for the transfer of a group of assets that constitutes a business or nonprofit activity in exchange for a noncontrolling interest in another entity should be consistent with Subtopic 810-10. Accordingly, a noncontrolling interest received in the exchange would be recognized at fair value and a gain or loss would be recognized in earnings when the entity loses control of the business. The guidance for such exchanges exists in Subtopic 845-10, originally issued as EITF Issue No. 01-2, "Interpretations of APB Opinion No. 29." That guidance was revised when the Board issued Statement 160 to clarify that if a subsidiary was exchanged for a noncontrolling interest in another entity, the guidance in Subtopic 810-10 should be applied. In some constituents' views, the amendments that Statement 160 made to Issue 01-2 were unclear on what accounting should be applied if a group of assets that constitutes a business was exchanged instead of a subsidiary. The Board concluded that the form of such transactions should not result in a different accounting treatment and that the same accounting should apply regardless of whether the business or nonprofit activity is transferred in asset or entity form. All respondents agreed with the Board's decision.

BC17. The amendments in the proposed Update also clarified that Subtopic 810-10 applies if an entity transfers a subsidiary or group of assets that is a business or nonprofit activity to an equity method investee or joint venture. Constituents questioned whether Subtopic 810-10 should apply to those situations because Topic 323 provides guidance on accounting for transactions with an equity method investee including joint ventures. That Topic prohibits recognition of gain or loss on transactions with an equity method investee until the gain or loss has been realized through transactions outside the group. That guidance conflicts with the accounting required by Subtopic 810-10. The Board noted that Subtopic 810-10 explicitly requires that a subsidiary be deconsolidated and that a gain or loss, including any gain or loss associated with a retained investment, be recognized in earnings if the entity loses control of the subsidiary. In the Board's view, inherent in that conclusion is that a retained investment could subsequently be accounted for as an equity method investment. Accordingly, the Board concluded that the accounting treatment should not differ

on the basis of whether the transaction was with a new or existing equity method investee or joint venture. All respondents agreed with the Board's decision. However, the Board decided to require disclosure about the nature of continuing involvement with the subsidiary and whether a related party relationship exists to highlight circumstances in which a gain or loss is recognized but in which there is ongoing influence or joint control between the parties.

BC18. One respondent requested that the Board consider requiring that a retained investment be recognized at fair value in a nonreciprocal transfer to owners. The Board decided not to change the guidance on a nonreciprocal transfer to owners because it would represent a fundamental change to the accounting for such transactions. In the Board's view, any such change should only occur in a holistic project that addresses the accounting for nonreciprocal transfers to owners.

Effective Date and Transition

BC19. The Board concluded that the amendments in this Update should be effective in the period that an entity first adopts the guidance in Statement 160 (now in Subtopic 810-10) because the purpose of the amendments is to clarify the scope of the entity's application of that Subtopic. For an entity that has not yet adopted that guidance, the amendments in this Update do not result in any change in accounting.

BC20. If an entity has already adopted Statement 160, the Board decided that the amendments in this Update are effective in interim and annual periods ending after December 15, 2009. For those entities, the guidance should be applied retrospectively to the date that Statement 160 was adopted. The Board concluded that the effective date provides sufficient time for entities and their auditors to analyze the effect of the amendments in this Update on applicable transactions affecting an entity after its adoption of Subtopic 810-10.

BC21. To improve comparability of financial information across entities, retrospective application of the guidance is required. The Board concluded that the benefits of retrospective application outweigh the costs. The earliest an entity would have applied the provisions of U.S. GAAP on consolidation affected by the amendments in this Update would have been in interim periods beginning after December 15, 2008. The Board anticipates that the guidance will not have a pervasive effect on an entity's financial statements. Considering the short period of time the previous guidance had been outstanding, the isolated effect the amendments are expected to have on affected financial statements, and that an entity should readily have information available to apply the guidance, the Board does not anticipate an entity to incur significant costs in applying the guidance retrospectively.

Benefits and Costs

BC22. 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 Board'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.

BC23. The Board does not anticipate that entities will incur significant costs as a result of the amendments in this Update. The amendments provide the benefit of improving consistent application of U.S. GAAP by clarifying guidance that already exists within U.S. GAAP. The amendments do not create new accounting requirements other than additional disclosures for which information should be readily available.

Amendments to the XBRL Taxonomy

The following elements are proposed additions to the XBRL taxonomy as a result of the amendments in this Update.

Standard Label *	Definition	Codification Reference
Fair Value, Assets Measured on Recurring Basis, Retained Interest, Valuation Techniques	This element represents, the inputs and valuation technique(s) used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, during the period.	820-10-50-2(e) <u>810-10-50-1B(d)</u>
Deconsolidation, Nature of Continuing Involvement with Subsidiary, Description	This element provides a description of the nature of continuing involvement with a subsidiary or group of assets subsequent to deconsolidation or derecognition.	810-10-50-1B(e) through 50-1B(h)
Business Combination, Step Acquisition, Equity Interest in Acquiree, Valuation Techniques	In a business combination achieved in stages, this element represents information about the valuation technique(s) used to measure the fair value of the equity interest in the acquiree held immediately by the acquirer before the business combination and information that enables users of its financial statements to assess the inputs used to develop the measurement.	805-10-50-2(g)

* The Standard Label and the Element Name are the same (except that the Element Name does not include spaces). If they are different, the Element Name is shown in *italics* after the Standard Label.