MINUTES

To: Board Members

From: Business Combinations—Purchase Method Procedures Team (Wilson, ext. 275)

Subject: Minutes of the March 26, 2003 Board Meeting

Date: April 2, 2003

cc: FASB: Bielstein, Smith, Petrone, Bossio, Tamulis, Munro, Pinson, Manders, Wilson, Swift, Polley, Cropsey, Thompson, Gabriele, Sutay, Lapolla, FASB Intranet; IASB: Leisenring, Ryltsova, Kimmitt; CICA: Walsh; AICPA: Hekker; Purchase Method Procedures Working Group Members

Topic: Business Combinations—Continued Discussion of Issues Associated with the Accounting and Reporting of Noncontrolling Interests

Basis for Discussion: Memorandums dated March 3, 13, 14, 24 and 25, 2003

Length of Discussion: Starting Time: 9:00 a.m. Concluding Time: 10:20 a.m.

Attendance:

Board members present:	FASB: Herz, Crooch, Foster, Trott (by phone), Schieneman, Schipper, Wulff
	IASB: Leisenring
Board members absent:	None
Staff in charge of topic:	Bossio, Ryltsova, Tamulis
Other staff at Board table:	Bielstein, Manders, Wilson,
Outside participants:	Ryltsova (by phone)

Summary for ACTION ALERT:

The Board discussed the issue of structuring or "linking" transactions (for example, when a subsidiary is disposed of in two or more stages, should the transactions be viewed as one transaction). The Board decided that this is a broader issue that should not be addressed specifically in this project. The Board noted, however, that it would expect that if evidence suggests that two or more transactions are entered into in contemplation of each other, the transactions would be viewed as one transaction in order that their substance is represented faithfully.

The Board decided to clarify its previous decision on calculating gains or losses on the disposal of a subsidiary on the basis that the transaction may be viewed as consisting of two parts: (1) a distribution to the noncontrolling shareholders for their interest in the subsidiary based on carrying amounts and (2) a sale of the parent's controlling interest in the subsidiary. Specifically, the Board agreed to clarify its previous decision as follows:

> If a parent loses control of a subsidiary, whether through a sale of ownership interests or otherwise, any gain or loss should be recognized in the income statement for the period, and calculated as the difference between:
>
> (a) The proceeds, if any, from the sale of ownership interests in the subsidiary that resulted in the loss of control, and
>
> (b) The parent's share of the carrying amount of the subsidiary's net assets in the consolidated financial statements less the fair value of any investment remaining in the former subsidiary.
>
> The noncontrolling interests' share of the carrying amount of the subsidiary's net assets should be derecognized with a corresponding reduction in the carrying amount of noncontrolling interests.

The Board discussed, but did not reach a decision on, how to allocate losses of a partially owned subsidiary to its controlling and noncontrolling interests when a guarantee or other arrangement with the subsidiary exists.

Matters Discussed and Decisions Reached:

The Board discussed the issue of structuring or "linking" transactions (for example, when a subsidiary is disposed of in two or more stages, should the transactions be viewed as one transaction). The staff noted that opportunities for gaming arise because of a "mixed model," meaning that if all assets and liabilities were carried at fair value, there would not be opportunities for gaming. Several Board members noted that structuring or gaming is a broader issue than can be addressed in a business combinations project and should be addressed comprehensively. The staff agreed that gaming issues are pervasive; however, the emphasis of the current discussion is limited to gaming transactions in the context of business combinations. The Board decided that this issue should not be specifically addressed in this project. The Board noted, however, that it would expect that if there was evidence that suggests that two or more transactions are entered into in contemplation of each other, the transactions would be viewed in combination in order that their substance is represented faithfully. [All Board members agreed.]

The Board decided to clarify its previous decision on calculating gains or losses on the disposal of a subsidiary on the basis that the transaction should be viewed as consisting of two parts: (1) a distribution to the noncontrolling shareholders for their interest in the subsidiary based on the carrying amounts and (2) a sale of the parent's controlling interest in the subsidiary. Under its previous decision, the carrying amount of the noncontrolling interest would be included in the calculation of gain or loss on the disposition of a subsidiary. Certain Board members disagreed with that decision because derecognizing the noncontrolling interest in that way would result in the noncontrolling interest being recognized in the income statement when it is in fact an equity transaction. Specifically, the Board agreed to clarify its previous decision as follows:

> If a parent loses control of a subsidiary, whether through a sale of ownership interests or otherwise, any gain or loss should be recognized in income statement for the period, and calculated as the difference between:
>
> (a) The proceeds, if any, from the sale of ownership interests in the subsidiary that resulted in the loss of control, and
>
> (b) The parent's share of the carrying amount of the subsidiary's net assets in the consolidated financial statements less the fair value of any investment remaining in the former subsidiary.
>
> The noncontrolling interests' share of the carrying amount of the subsidiary's net assets should be derecognized with a corresponding reduction in carrying amount of noncontrolling interests. [All Board members agreed.]

The Board discussed the issue of how to attribute losses of a partially owned subsidiary to the controlling and noncontrolling interests when there is a guarantee or other arrangement with the subsidiary. The staff recommended that the existence of a guarantee or other type of arrangement between the subsidiary and its parent or the subsidiary and its noncontrolling shareholders should not change the way losses are attributed between controlling and noncontrolling interests and that losses should be attributed on the basis of relative ownership interests. The staff believes that the effects of a guarantee or other arrangement should be accounted for separately and should not affect the way losses or income are attributed. Several Board members disagreed with the staff's recommendation. Those Board members suggest that the risk assumed in providing a guarantee on behalf of the subsidiary or a loan to the subsidiary should be reflected in the way losses are attributed. The Board directed the staff to perform further research and provide additional examples on this issue.

The Board also reconsidered an issue that was discussed at its March 17, 2003 Board meeting for which the Board did not reach a conclusion. The Board decided that in a bargain purchase, any excess of the fair value of the acquirer's interest in the net assets acquired over the consideration paid for that interest should be recognized as a reduction in the full amount of goodwill until the goodwill is reduced to zero. Any remaining excess should be recognized as a gain in the income statement for the period. [No Board members objected.] The IASB reached the same conclusion at their March 2003 Board meeting.

Follow-up Items:

The Board directed the staff to provide further analysis on attributing losses of a partially owned subsidiary between controlling and noncontrolling interests where there is a guarantee or other arrangement with the subsidiary. The staff will consider three alternatives:

1. Attribute losses up to the value of the loan or guarantee to the party providing the loan or guarantee.
2. Attribute losses to the controlling and noncontrolling interests under the hypothetical liquidation at book value approach.
3. Attribute losses up to the fair value of the benefit of the loan or guarantee to the party providing the loan or guarantee.

General Announcements:
None