



September 28, 2009

Mr. Russell G. Golden, Technical Director
Financial Accounting Standards Board
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Via Email to director@fasb.org

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Re: File Reference No. 1720-100

Dear Mr. Golden:

Grant Thornton LLP appreciates the opportunity to comment on Proposed Accounting Standards Update (ASU), *Consolidations (Topic 810) – Accounting and Reporting for Decreases in Ownership of a Subsidiary—a Scope Clarification*.

We support the Board's decision to resolve conflicts between the deconsolidation guidance in ASC Topic 810, *Consolidation*, and other authoritative guidance. However, as indicated in our responses to the Questions for Respondents, we believe that the proposed amendments set forth in the proposed ASU should be clarified. We are also concerned about the proposed limitation on the scope of the guidance on changes in the parent's ownership interest in a consolidated subsidiary without loss of a controlling financial interest. Additionally, we are concerned that the guidance for consolidated subsidiaries that are not businesses or nonprofit activities may not be sufficient.

Our responses to the Questions for Respondents follow.

Question 1: Do you agree that the scope of the decrease in ownership guidance in Subtopic 810-10 should be limited to subsidiaries and groups of assets that are businesses or nonprofit activities?

ASC Subtopic 810-10 provides guidance on accounting for (1) changes in a parent's ownership interest while the parent retains a controlling financial interest (ASC paragraphs 810-10-45-22 through 45-24) and (2) deconsolidation of a subsidiary (ASC paragraphs 810-10-40-4 and 40-5). We assume this question is referring to both of these provisions. However, we note that the guidance on a change in a parent's ownership interest applies to increases as well as to decreases in the parent's ownership interest. We also note that deconsolidation can occur without a decrease in the parent's ownership interest.

Changes in a parent's ownership interest without loss of a controlling financial interest

ASC paragraphs 810-10-45-23 and 45-24 require changes in the parent's ownership interest in a subsidiary that do not result in loss of a controlling financial interest in the subsidiary to be accounted for as equity transactions, without recognition of a gain or loss in income. The proposed amendments would limit the applicability of this guidance to subsidiaries that are businesses or nonprofit activities. Although we appreciate the Board's concern about the structuring opportunities that could exist because of differences in financial asset derecognition and subsidiary (entity) deconsolidation guidance, we are concerned about the proposed scope limitations on accounting for a change in a parent's ownership interests in a consolidated subsidiary. For example, how should a parent account for changes in its ownership interest in a development stage subsidiary that does not yet meet the definition of a business? Should or could the parent apply acquisition accounting to increases in its ownership interests in a consolidated subsidiary that is not a business?

Deconsolidation

Deconsolidation date

ASC paragraph 810-10-40-4 establishes the deconsolidation date. The first sentence in ASC paragraph 810-10-40-4, as amended, would state, "A parent shall deconsolidate a subsidiary that is a business or nonprofit activity (or a group of assets that constitute a business or nonprofit activity) *as of the date the parent ceases to have a controlling financial interest* in the subsidiary or group of assets." (Emphasis added.)

We do not agree that the deconsolidation-date guidance should be limited to deconsolidation of businesses and nonprofit activities. Reporting entities consolidate many entities that do not meet the definition of a business or nonprofit activity based on having a controlling financial interest in that entity. We believe that such entities should be deconsolidated as of the date the reporting entity loses its controlling financial interest in that entity. For example, we think that a reporting entity should deconsolidate a variable interest entity as of the date the reporting entity ceases to be the primary beneficiary of that variable interest entity, regardless of whether that variable interest entity is a business.

Measurement

ASC paragraph 810-10-40-5 provides guidance on the measurement of a gain or loss on deconsolidation of a subsidiary and of any retained noncontrolling interest in the former subsidiary. The proposed amendments would require a reporting entity to deconsolidate a group of assets that is a business or nonprofit activity in accordance with this paragraph.

We do not agree that a group of assets that is not an entity should be included in the scope of ASC paragraphs 810-10-40-4 and 40-5. Consolidation is an entity concept. ASC Topic 810 provides the criteria for a reporting entity's recognition, that is, consolidation, of a subsidiary and guidance on consolidation procedures. A subsidiary is an entity by definition. Nothing in the overview or scope sections of ASC Topic 810 indicates that any guidance in the topic would apply to a group of assets that is not an entity.

We do not think that the proposed amendments clearly communicate the Board decisions. The “Summary of Board Decisions” posted to the FASB website for the June 24, 2009 meeting states, “The Board decided to modify the scope of Statement 160 such that the partial sale and deconsolidation provisions would apply only to *subsidiaries* that are businesses or nonprofit activities.” (Emphasis added) The Board also decided “To modify EITF Issue No. 01-2, ‘Interpretations of APB Opinion No. 29,’ to clarify that the *exchange of a group of assets that constitute a business in return for an equity interest* should be accounted for in accordance with the deconsolidation provisions of Statement 160.” (Emphasis added.)

Therefore, we recommend that the guidance on the derecognition of asset groups that are not subsidiary entities be provided outside of ASC Topic 810. However, if retained in ASC Topic 810, the amended guidance should be clarified to be consistent with the Board decisions and with the concept of consolidation. We suggest the following:

- Indicate in the overview and scope sections of ASC Subtopic 810-10 that guidance in the derecognition section applies to exchanges of a group of assets that constitute a business for an equity interest in the transferee
- Eliminate the proposed amendment to ASC paragraph 810-10-40-5
- Add a paragraph after ASC paragraph 810-10-40-5 to provide the measurement guidance for the reporting entity’s transfer of a group of assets that is a business, but not an entity, to a second entity in exchange for a noncontrolling interest in that second entity (including an equity method investee or joint venture.) The reporting entity shall recognize a gain or loss in net income 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 the noncontrolling interest received in the second entity
 - b. The carrying amount of the assets and liabilities of the business transferred
- Revise the cross-references to other topics accordingly

Consolidation guidance for subsidiaries that are not businesses or nonprofit activities
Paragraph BC9 in the “Basis for Conclusions” of the proposed ASU explains that the Board decided not to provide guidance for the parent of a consolidated subsidiary that is not a business or nonprofit activity on either:

- Deconsolidation of the subsidiary, or
- Changes in ownership interests in the subsidiary that do not result in deconsolidation.

Paragraph BC9, which would not be included in the Codification, directs the parent of a subsidiary that is not a business or nonprofit activity to evaluate the substance of the subsidiary and transaction to determine the applicable guidance, such as guidance on revenue recognition, transfers of financial assets, or sales of real estate.

We do not think the suggestion in paragraph BC9 would sufficiently address, for example, whether the parent should account for the acquisition of noncontrolling interest in a consolidated subsidiary as an equity transaction rather than as an adjustment to the basis of the consolidated assets and liabilities. We question the Board's assumption that accounting for change of ownership interests and derecognition of non-business subsidiaries is sufficiently covered by other GAAP. We also believe this guidance raises the conceptual question as to why the parent should initially recognize non-business entities through consolidation based on a controlling financial interest if the subsidiary is presumed to be in substance something other than an entity for derecognition and change of ownership interest accounting.

Question 2: Do you agree that sales of in-substance real estate should be excluded from the scope of the decrease in ownership provisions of Subtopic 810-10 even if it is a business or nonprofit activity?

We agree that sales of in-substance real estate should be excluded from the scope of the decrease in ownership provisions of ASC Subtopic 810-10 even if it is a business or nonprofit activity. As noted above, the proposed amendments would also exempt in-substance real estate from the guidance on increases in the controlling interest.

Question 3: Do you agree that an entity should apply the guidance in Subtopic 810-10 for transfers of a business or nonprofit activity to an equity method investee (over which the entity has significant influence) or a joint venture (over which the entity has joint control)?

We agree that an entity should apply the guidance in ASC Subtopic 810-10 for transfers of a business or nonprofit activity to an equity method investee (over which the entity has significant influence) or a joint venture (over which the entity has joint control). However, as noted above, we suggest that the proposed amendments be clarified.

Question 4: Do you agree that the guidance in Subtopic 810-10 also should apply to an exchange of a group of assets that constitute a business or nonprofit activity for a noncontrolling interest in another entity?

We agree that the guidance in ASC Subtopic 810-10 also should apply to an exchange of a group of assets that constitute a business or nonprofit activity for a noncontrolling interest in the transferee entity. However, as noted above, we suggest that the proposed amendments be clarified.

Question 5: Is the proposed effective date operational? If not, please explain why?

We believe the proposed effective date is appropriate because the proposed amendments would address practice issues encountered by companies adopting the new standards on noncontrolling interests in consolidated subsidiaries. However, we are concerned that the amended guidance will not be operational without the clarifications we have suggested.

We would be pleased to discuss our comments with you. If you have any questions, please contact L. Charles Evans, Partner, Accounting Principles Consulting Group, at 832.476.3614.

Sincerely,

/s/ Grant Thornton LLP