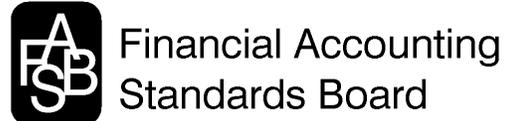


MINUTES



To: Board Members

From: Scope of Statement 160
(Theilken x 471)

Subject: Minutes of the November 11, 2009,
Board Meeting: *Scope of Statement 160* **Date:** December 28, 2009

cc: Leisenring, Bielstein, Stoklosa, Golden, Bossio, Lott, Klimek, McGarity,
Chookaszian, Posta, Glotzer, C. Smith, Proestakes, Sutay, Mechanick,
Gabriele, Bonn, Van Eperen, Theilken, FASB Intranet

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue an Accounting Standards Update.

Topic: Analysis of the Comment Letters Received on Proposed Update

Basis for Discussion: Board Memorandum dated October 28, 2009

Length of Discussion: 10:00 a.m. to 10:23 a.m.

Attendance:

Board members present: FASB: Herz, Linsmeier, Siegel, Seidman, and L. Smith

Board members absent: None

Staff in charge of topic: Bonn

Other staff at Board table: Golden, Stoklosa, and Theilken

Outside participants: None

Summary of Decisions Reached:

The Board discussed comments received on Proposed Accounting Standards Update, *Consolidation (Topic 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary—a Scope Clarification*. The Board affirmed its proposal that the decrease in ownership provisions of Topic 810 would apply to subsidiaries or groups of assets that are businesses or nonprofit activities, but would not apply to sales of in substance real estate even if the real estate would be considered a business.

The Board clarified the guidance for accounting for decreases in ownership of subsidiaries that are not businesses or nonprofit activities. The Board decided that an entity should evaluate the substance of the transaction and determine whether guidance outside Topic 810 addresses the accounting for that transaction. If the substance of the transaction is not addressed by other guidance, the entity should then apply the guidance in Topic 810.

The Board affirmed that the amendments to Topic 810 will be effective for periods ending on or after December 15, 2009 and should be applied retrospectively for entities that have already adopted the guidance in Subtopic 801-10. The Board directed the staff to proceed to a draft of a final Accounting Standards Update for vote by written ballot.

Objective of Meeting:

The primary objectives of the meeting were for the staff to (1) provide the Board with an analysis of comments received from respondents to the proposed Update and (2) seek authorization to proceed to a draft of a final Accounting Standards Update for vote by written ballot. The objectives were met.

Matters Discussed and Decisions Reached:

1. The following three issues were discussed by the Board: (a) applicability of Topic 810 to subsidiaries and groups of assets that are businesses, (b)

applicability of Topic 810 to subsidiaries and groups of assets that are *not* businesses, and (c) proposed effective date and transition.

2. Mr. Bonn noted that during the most recent education session, questions were raised on whether the changes that would potentially be made as a result of the project would have any implications for interaction between U.S. generally accepted accounting principles (GAAP) and the IASB's International Financial Reporting Standards (IFRS). He explained that in May 2009, the IASB staff asked the IASB whether a companion project should be created to coincide with the FASB project. At that time, the IASB decided not to embark on a companion project regarding Topic 810 for the following reasons:
 - a. IFRS literature on deconsolidation does not conflict with other IFRSs in the same manner as does Topic 810 with other guidance in U.S. GAAP
 - b. Any changes that are required in IFRS might be more appropriately addressed through post-implementation review of the standard
 - c. Such an undertaking might address the issue of control, which is currently not defined identically between U.S. GAAP and IFRS . It would be more appropriate to address control within the joint consolidations project.

Issue 1: Applicability of Topic 810 to Subsidiaries and Groups of Assets That Are Businesses

3. Mr. Bonn explained that respondents generally supported the Board's tentative decision to limit the scope of the proposed amendments to Topic 810 to subsidiaries and groups of assets that are businesses or nonprofit activities. Respondents also were supportive of the Board's tentative decision to remove in substance real estate transactions from the scope of Topic 810. Some respondents expressed concern that the proposed guidance might rely too heavily on the definition of a business, which was defined fairly recently.
4. Mr. Bonn explained that judgment will be required to determine whether the features or provisions of a transaction cause the assets being transferred to meet the definition of a business. Nonsubstantive business features inserted into a transaction should not be relevant in determining whether a subsidiary or group of assets constitutes a business. He stated that the staff agrees with

the Board's current approach to post-implementation review of new guidance surrounding the definition of a business.

5. **Staff Recommendation 1:** The staff recommended that the Board affirm its decision that the guidance in Topic 810 should apply to decreases in ownership of subsidiaries or groups of assets that constitute businesses.
6. Mr. Bonn clarified for the Board that an affirmative vote on the staff's recommendation implicitly means that the Board also affirms its previous decisions regarding in substance real estate transactions and transfers to joint ventures. At the June 24, 2009, Board meeting, the Board voted to exclude in substance real estate from the scope of the decrease in ownership guidance in Topic 810. The Board also voted to include transfers to equity method investees or joint ventures within the scope of the decrease in ownership guidance in Topic 810. Feedback from respondents on the proposed Accounting Standards Update supported these decisions. The Board decided to revisit these previous decisions and vote on them separate from the current staff recommendation.
7. **Board Vote 1A:** Messrs. Herz and Siegel and Ms. Seidman voted to affirm the Board's previous decision and to exclude sales of in substance real estate from the scope of the decrease in ownership guidance in Topic 810. Messrs. Linsmeier and Smith dissented on the grounds that a real estate business still constitutes a business.
8. **Board Vote 1B:** Ms. Seidman stated that an affirmative vote would expand the scope and application of the guidance in Topic 810 to situations in which the existence of a substantive economic event is unclear. She proposed that an affirmative vote include a disclosure provision to inform users that any transaction involving a related party constitutes continuing involvement with the transferred subsidiary. All Board members voted to affirm the Board's previous decision and to include transfers of subsidiaries to equity method investees or joint ventures within the scope of the deconsolidation and partial sale provisions of Topic 810. The Board also voted to include a disclosure

requirement on continuing involvement in the case that any such transactions occur.

9. **Board Vote 1C:** The Board voted to affirm its decision that Topic 810 should apply to decreases in ownership of subsidiaries or groups of assets that constitute businesses (other than those businesses addressed in Board Votes 1A and 1B). All Board members agreed.

Issue 2: Applicability of Topic 810 to Subsidiaries and Groups of Assets That Are *Not* Businesses

10. Mr. Bonn explained that the guidance in the proposed Accounting Standards Update was not explicit on how to account for decreases in ownership of subsidiaries when those subsidiaries do not constitute a business. In the basis for conclusions, the Board's opinion was that other guidance should be applied in cases in which such guidance exists. If such guidance does not exist, the most suitable guidance should be applied by analogy. Feedback from constituents suggests that a lack of explicit guidance could cause confusion in practice.

11. **Staff Recommendation 2:** The staff recommended that final guidance should include provisions such as the following:

- a. An entity should evaluate the substance of a transaction involving a subsidiary that is not a business or nonprofit activity and apply U.S. GAAP other than Topic 810 if that guidance addresses the substance of the transaction. Examples of other U.S. GAAP include, but are not limited to, the following:
 1. Revenue recognition guidance in Topic 605
 2. Transfers of financial assets guidance in Topic 860
 3. Exchanges of nonmonetary assets guidance in Topic 845.
 - b. If the substance of the transaction is not addressed by other U.S. GAAP, then the decrease in ownership guidance in Topic 810 should be applied.
12. Mr. Linsmeier expressed concern that affirmation of Staff Recommendation 2 would cause divergence of deconsolidation provisions between U.S. GAAP and IFRS.

13. **Board Vote 2:** Messrs. Herz, Siegel, and Smith and Ms. Seidman voted to affirm the staff's recommendation to clarify the guidance for decreases in ownership of subsidiaries that are not businesses or nonprofit activities, as described in Staff Recommendation 2. Mr. Linsmeier dissented.

Issue 3: Proposed Effective Date and Transition

14. Mr. Bonn explained that all respondents supported retrospective application of the decreases in ownership provisions in Topic 810 in periods ending on or after December 15, 2009, for entities that have already adopted the guidance in Section 810-10-65.

15. **Staff Recommendation 3:** The staff recommended that the Board affirm its previous decisions regarding the effective date and transition for the decrease in ownership provisions of Topic 810, and that the Board authorize the staff to proceed to a draft of a final Accounting Standards Update for vote by written ballot.

16. **Board Vote 3:** The Board voted to affirm its decision to require retrospective application of the decrease in ownership provisions in Topic 810 in periods ending on or after December 15, 2009, for those entities already applying the guidance. The Board directed the staff to proceed to a draft of a final Accounting Standards Update for vote by written ballot.

Follow-up Items:

17. The staff will proceed to a draft of a final Accounting Standards Update for vote by written ballot.

General Announcements:

None.