MINUTES

To:	Board Members
From:	Scope of Statement 160 (Theilken x471)
Subject:	Minutes of the December 22, 2009, Board Meeting: *Scope of Statement 160*
Date:	January 12, 2010
cc:	Leisenring, Bielstein, Stoklosa, Golden, Bossio, Lott, Klimek, McGarity, Chookaszian, Posta, Guasp, Glotzer, C. Smith, Proestakes, Sutay, Mechanick, Gabriele, Bonn, Theilken, FASB Intranet

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Topic: Resolution of Conflict between Subtopic 810-10 and Topic 932

Basis for Discussion: Board Memorandum dated December 16, 2009

Length of Discussion: 9:30 a.m. to 10:08 a.m.

Attendance:

Board members present:	FASB: Herz, Linsmeier, Siegel, Seidman, and Smith
Board members absent:	None
Staff in charge of topic:	Bonn
Other staff at Board table:	Golden and Stoklosa
Outside participants:	None

Summary of Decisions Reached:

The Board discussed whether a conveyance of an oil and gas business should be accounted for in accordance with the guidance on (a) decreases in ownership of a subsidiary in Topic 810, Consolidation, or (b) mineral right conveyances and related transactions in Topic 932, Extractive Activities—Oil and Gas. The Board decided that an entity would account for conveyance transactions using the mineral rights conveyance guidance. The Board directed the staff to draft a final Accounting Standards Update for vote by written ballot.

Objective of Meeting:

The primary objective of the meeting was for the staff to provide the Board with an analysis of a conflict between the decrease in ownership provisions of Subtopic 810-10 (Consolidation—Overall) and the oil and gas mineral rights conveyance guidance in Topic 932. The objective was met.

Matters Discussed and Decisions Reached:

1. Mr. Bonn explained that the oil and gas mineral rights conveyance guidance in Topic 932 conflicts with the Board's previous decisions regarding the proposed Accounting Standards Update, *Consolidation (Topic 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary—a Scope Clarification*. The guidance in Subtopic 810-10 states that upon loss of control of a subsidiary, the entity should deconsolidate the subsidiary, record any retained investment in the subsidiary at fair value, and recognize a gain or loss on the transaction. If there is no change in control, the entity should account for a decrease in ownership using the equity method. At the November Board meeting, the Board decided that the decrease in ownership provisions of Subtopic 810-10 should apply to subsidiaries or groups of assets that constitute a business unless the transaction is a sale of real estate.
2. Mr. Bonn stated that the guidance in Topic 932 includes specific criteria that must be met for a gain or loss to be recognized upon deconsolidation of

subsidiaries or derecognition of groups of assets relating to certain conveyances of oil and gas mineral rights. In certain circumstances, Topic 932 prohibits gain or loss recognition on conveyances. Those situations include (a) conveyance transactions that are in substance borrowings, (b) joint undertakings intended to develop or produce oil and gas, (c) fact patterns in which continuing involvement exists or gain realizability is questionable, and (d) situations in which the full cost method of accounting is applied.

3. Mr. Bonn stated that the question at hand is whether the guidance in Subtopic 810-10 or Topic 932 should apply in those cases in which there is a decrease in ownership of an oil and gas business in which the entity has a controlling interest before the transaction. Mr. Bonn noted that there were additional complexities associated with oil and gas transactions because of the application of the proportional consolidation method when accounting for the assets in the transaction.

4. **Board Comments:** Mr. Herz noted that in many cases a joint undertaking for the development or production of oil and gas can begin with one entity having a controlling interest and that interest subsequently changing to a noncontrolling interest.

5. Mr. Leisenring stated that joint undertakings, typically accounted for using proportional consolidation accounting, are not necessarily characterized by a change in interest of the underlying asset. The utilization of the asset changes, but the entity's rights to the asset may not change. Ms. Seidman noted that an undivided interest in an asset does not necessarily imply that the entity has control over the subsidiary that houses the asset. The theory behind consolidation based upon control is that when an entity owns a majority interest in a subsidiary, it has the ability to direct the operations of that subsidiary. This is not the case in a joint undertaking.

6. Mr. Smith stated that the rationale for marking a retained interest in a deconsolidated subsidiary to market is that the nature of the investment has changed. Mr. Linsmeier stated that when an entity contributes a wholly-

owned subsidiary to a joint undertaking, the nature of the investment has changed because the entity can no longer sell the assets housed in that subsidiary without agreement from other parties in the joint undertaking. Instead, the entity can sell its interest in the assets.

7. Ms. Seidman noted that the main issue is that U.S. generally accepted accounting principles (GAAP) have evolved in specific industries to assist in the determination of when control over subsidiaries or groups of assets is lost. At the moment, U.S. GAAP for the majority of industries acknowledges the loss of control as a major economic event but gives very little guidance on the determination of when control is actually lost. That becomes especially difficult in situations in which continuing involvement exists. Ms. Seidman suggested that new guidance should be developed for when control over a business is lost. Mr. Linsmeier agreed, noting that current guidance is inconsistent even when addressing continuing involvement for individual assets. Mr. Golden noted that certain industries have developed the philosophy that gains should only be recognized when realizability of the gains is reasonably assured. The development of guidance in Subtopic 810-10 took a fundamentally different approach by providing that gains or losses should be recognized upon the loss of control.

8. Mr. Linsmeier stated that control over an entity is not identical to control over an asset. Control over an entity is far more indirect than direct control over a wholly owned asset. The guidance in Subtopic 810-10 is meant to address entity control situations. The problem of whether entity or asset accounting should be used to reflect decreases in the ownership of the subsidiary occurs when a subsidiary houses a single asset.

9. Ms. Seidman questioned whether it might make sense to apply the guidance in Subtopic 810-10 for decreases in ownership of all businesses, unless there is other industry-specific gain recognition guidance. Mr. Bonn responded that this option was explored toward the beginning of the project, but that Board members favored a general principle, consistent with the Board's intent when originally deliberating over the guidance in Subtopic 810-10.

10. Mr. Golden clarified that the Board has already made an exception to the guidance in Subtopic 810-10 for the sale of real estate businesses. The question at hand is whether the Board would like to make another exception for the conveyance of oil and gas businesses.

11. Mr. Siegel stated that the guidance in Topic 932 was written for specific reasons, and that he is unwilling to overturn the guidance until he is provided with an analysis of the guidance and its utility. Ms. Seidman agreed.

12. Mr. Smith stated that he does not have a problem with providing a temporary scope exception for conveyance of oil and gas mineral rights until such a point in time that sufficient research has been performed. However, he is fearful that the staff will continue to identify more industries that follow specific guidance in conflict with the general principle. Mr. Linsmeier agreed and noted that he is unwilling to make the assumption that the current guidance in Topic 932 makes sense without appropriate and separate evaluation of that guidance.

13. **Board Vote:** The Board voted to provide a scope exception to Subtopic 810-10 for the conveyance of oil and gas mineral rights. The Board decided that the entity should account for conveyance transactions using the mineral rights conveyance guidance in Topic 932. The Board also decided that the scope exception to Subtopic 810-10 for the conveyance of oil and gas mineral rights would not be temporary. Messrs. Smith and Linsmeier dissented on the grounds that the guidance in Subtopic 810-10 was intended to be applied to all businesses. The Board directed the staff to proceed to a draft of a final Update for vote by written ballot.

<u>Follow-up Items</u>:

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

<u>General Announcements</u>:

None.