

# Financial Accounting Series

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EXPOSURE DRAFT

## Proposed Statement of Financial Accounting Standards

**Consolidated Financial Statements,  
Including Accounting and Reporting of  
Noncontrolling Interests in Subsidiaries**

**a replacement of ARB No. 51**

This Exposure Draft of a proposed Statement of Financial Accounting Standards is issued by the Board for public comment. Written comments should be addressed to:

Technical Director  
File Reference No. 1205-001

Comment Deadline: October 28, 2005



Financial Accounting Standards Board  
of the Financial Accounting Foundation

Responses from interested parties wishing to comment on the Exposure Draft must be *received* in writing by October 28, 2005. Interested parties should submit their comments by email to [director@fasb.org](mailto:director@fasb.org), File Reference 1205-001. Those without email may send their comments to the “Technical Director—File Reference 1205-001” at the address at the bottom of this page. Responses should *not* be sent by fax.

All comments received by the FASB are considered public information. Those comments will be posted to the FASB’s website and will be included in the project’s public record.

Any individual or organization may obtain one copy of this Exposure Draft without charge until October 28, 2005, on written request only. Please ask for our Product Code No. E182. For information on applicable prices for additional copies and copies requested after October 28, 2005, contact:

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**Financial Accounting Standards Board**  
of the Financial Accounting Foundation  
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<p style="text-align: center;"><b>Notice for Recipients of This Exposure Draft</b></p>
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This proposed Statement would replace Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, as amended by FASB Statement No. 94, *Consolidation of All Majority-Owned Subsidiaries*. It also would establish standards for the accounting and reporting of noncontrolling interests (sometimes called *minority interests*) in consolidated financial statements and for the loss of control of subsidiaries.

This proposed Statement would carry forward, without reconsideration, the provisions of ARB 51, as amended, related to consolidation purpose and policy and certain of the provisions related to consolidation procedure. It would not change the requirement in ARB 51 that all companies in which the parent has a controlling financial interest be consolidated. To facilitate its objective of codification and simplification of U.S. generally accepted accounting principles (GAAP), the Financial Accounting Standards Board (Board) decided to incorporate into this proposed Statement the guidance in ARB 51 and the guidance for the accounting and reporting of noncontrolling interests and loss of control of subsidiaries. This proposed Statement also would amend FASB Statement No. 128, *Earnings per Share*, to specify the computation, presentation, and disclosure requirements for earnings per share if a parent has one or more partially owned subsidiaries. The Board is issuing this proposed Statement concurrently with proposed FASB Statement No. 141 (revised 200X), *Business Combinations*.

The Board invites comments on all matters in this proposed Statement, particularly on the specific questions set out below. Comments are most helpful if they:

1. Comment on the questions as stated
2. Indicate the specific paragraph or paragraphs to which the comments relate
3. Contain a clear rationale
4. Include any alternative the Board should consider.

Respondents need not comment on all of the questions presented and are encouraged to comment on additional issues as well.

Respondents must submit comments in writing by October 28, 2005.

Until a final Statement based on this proposed Statement becomes effective, ARB 51, as amended, and Statement 94 remain effective.

### **Questions 1 and 2—Reporting Noncontrolling Interests in the Consolidated Statement of Financial Position**

This proposed Statement would define a noncontrolling interest as the portion of the equity (residual interest) in a subsidiary attributable to the owners of the subsidiary other than the parent and the parent's affiliates. The Board concluded that the noncontrolling interest in the net assets of a subsidiary should be reported in the consolidated statement of financial position within equity, and presented separately from the parent shareholders' equity (refer to paragraphs B10–B14). This conclusion is the same as the conclusion reached when the Board considered this issue as part of the October 1995 Exposure Draft,

*Consolidated Financial Statements: Policy and Procedures*, and the October 2000 Exposure Draft, *Accounting for Financial Instruments with Characteristics of Liabilities, Equity, or Both*.

*Question 1—Do you agree that the noncontrolling interest is part of the equity of the consolidated entity? If not, what alternative do you propose and why?*

*Question 2—Do you agree with the proposed requirement to present the noncontrolling interest in the consolidated statement of financial position within equity, separately from the parent shareholders' equity? If not, what alternative do you propose and why?*

### **Question 3—Attributing Consolidated Net Income and Consolidated Comprehensive Income to the Controlling and Noncontrolling Interests**

This proposed Statement would require that net income or loss and each component of other comprehensive income be attributed to the controlling and noncontrolling interests based on relative ownership interests unless the controlling and noncontrolling interests have entered into a contractual arrangement that requires a different attribution between them. In that case, net income or loss and the components of other comprehensive income would be attributed to the controlling and noncontrolling interests based on the contractual requirements of that arrangement. Additionally, losses applicable to the noncontrolling interest of a subsidiary would be attributed to the noncontrolling interest even if those losses exceed the noncontrolling interest in the subsidiary's equity (refer to paragraphs B15–B19).

*Question 3—Do you agree with the proposed requirements for attributing net income or loss and the components of other comprehensive income to the controlling and noncontrolling interests? If not, what alternative do you propose and why?*

### **Question 4—Changes in Ownership Interests in a Subsidiary**

This proposed Statement would require that once control of a subsidiary is obtained, any increases or decreases in ownership interests in that subsidiary that do not result in a loss of control be accounted for as equity transactions. Any difference between the amount by which the noncontrolling interest is adjusted and the fair value of the consideration paid or received, if any, would be recognized directly in equity attributable to the controlling interest (for example, additional paid-in capital). Thus, the acquisition of some or all of the noncontrolling interest in a subsidiary would not be accounted for by the *purchase method* as in current practice (now called the *acquisition method* in proposed Statement 141(R)). That decision is consistent with the Board's tentative decision that at the time the parent obtains control of a subsidiary, the assets (including goodwill) and liabilities of the subsidiary would be recorded at their fair values rather than partially at fair value and partially at carryover basis (refer to paragraphs B22–B29).

*Question 4—Do you agree that changes in ownership interests in a subsidiary after control is obtained that do not result in a loss of control should be accounted for as equity transactions? If not, what alternative do you propose and why?*

## **Questions 5 and 6—Loss of Control of Subsidiaries**

This proposed Statement would require that on the date control of a subsidiary is lost, any retained investment in the former subsidiary be remeasured to its fair value in the consolidated financial statements with any gain or loss included in consolidated net income of the period. That decision is based on the Board's conclusion that the loss of control of a subsidiary is a significant economic event that changes the nature of the underlying investment. The parent-subsidiary relationship ceases to exist and an investor-investee relationship begins (refer to paragraphs B30–B33). That decision is consistent with the Board's tentative decision that obtaining control of a business is a significant economic event that should result in the recognition in income of any gains or losses on any preacquisition equity investments.

*Question 5—Do you agree that any gain or loss resulting from the remeasurement of a retained investment in a former subsidiary should be recognized in income of the period? If not, what alternative do you propose and why?*

As noted in Question 4, this proposed Statement would require that once control of a subsidiary is obtained, changes in ownership interests in that subsidiary that do not result in a loss of control be accounted for as equity transactions. Therefore, no gain or loss would be recognized in consolidated net income. In contrast, as noted in Question 5, a decrease in ownership interests resulting in the loss of control of a subsidiary would result in any gain or loss being recognized in consolidated net income. The Board is aware that differences in accounting that depend on whether a change in control occurs could create opportunities for entities to structure transactions to achieve a particular accounting result. Therefore, this proposed Statement includes factors to consider for determining whether multiple arrangements that result in a loss of control should be accounted for as a single arrangement (refer to paragraphs B35 and B36).

*Question 6—Do you agree with the proposed guidance for determining whether multiple arrangements should be accounted for as a single arrangement? If not, what alternative do you propose and why?*

## **Question 7—Reporting Earnings per Share**

This proposed Statement would amend Statement 128 to specify the computation, presentation, and disclosure requirements for earnings per share if a parent has one or more partially owned subsidiaries. The Board believes that the presentation of earnings per share information is for the benefit of the common shareholders of the parent. Thus, although amounts for both the controlling interest and the noncontrolling interest would be reported in consolidated net income, the Board believes that earnings per share data in consolidated financial statements that include subsidiaries that are partially owned should be calculated using only amounts attributable to the controlling interest. That practice is consistent with how entities reported earnings per share before the issuance of this proposed Statement (refer to paragraphs B51 and B52).

*Question 7—Do you agree that earnings per share amounts should be calculated using only amounts attributable to the controlling interest? If not, what alternative do you propose and why?*

### **Questions 8–12—Disclosures**

This proposed Statement would require that a parent with one or more partially owned subsidiaries disclose separately, on the face of the consolidated financial statements, the total amounts of consolidated net income and consolidated comprehensive income, and the amounts of each attributable to the controlling interest and the noncontrolling interest (refer to paragraphs B37 and B38).

*Question 8—Do you agree that disclosure of the total amounts of consolidated net income and consolidated comprehensive income, and the amounts of each attributable to the controlling interest and the noncontrolling interest should be required? If not, why?*

This proposed Statement would require that a parent with one or more partially owned subsidiaries disclose the amounts attributable to the controlling interest for the following if any of these amounts is reported in the financial statements (refer to paragraph B39):

1. Income from continuing operations
2. Discontinued operations
3. Extraordinary items
4. Cumulative effect of changes in accounting principles
5. Components of other comprehensive income.

*Question 9—Do you agree that disclosure of the amounts attributable to the controlling interest should be required? If not, why?*

This proposed Statement would require that an entity with one or more partially owned subsidiaries provide a reconciliation of the changes in the noncontrolling interest from the amount reported in equity as of the beginning of each reporting period to the amount reported at the end of each reporting period. That reconciliation would be provided in the consolidated statement of changes in equity, if presented, otherwise in notes to consolidated financial statements.

*Question 10—Do you agree that a reconciliation of the changes in the noncontrolling interest should be required? If not, why?*

This proposed Statement would require that a parent with one or more partially owned subsidiaries disclose in notes to the consolidated financial statements a separate schedule that shows the effects of any transactions with the noncontrolling interest on the equity attributable to the controlling interest. An entity that presents earnings per share data also would be required to disclose on that schedule an additional per-share metric that includes in the numerator of the calculation the effects of any equity transactions with the noncontrolling interest. In its exposure draft of proposed amendments to IAS 27,

*Consolidated and Separate Financial Statements*, the International Accounting Standards Board (IASB) has decided not to require the disclosure of such a schedule (refer to paragraphs B40–B46).

*Question 11—Do you agree that disclosure of a separate schedule that shows the effects of any transactions with the noncontrolling interest on the equity attributable to the controlling interest should be required? Please provide the basis for your position.*

If control of a subsidiary is lost, this proposed Statement would require that the parent disclose (a) the amount of any gain or loss recognized on the loss of control and (b) the caption in the income statement in which that gain or loss is recognized (if not separately presented on the face of the income statement). If the parent retains an investment in the former subsidiary, this proposed Statement also would require disclosure of the portion of the gain or loss related to the remeasurement of the retained investment separately from the disclosure of the total gain or loss recognized.

*Question 12—Do you agree that disclosure of the gain or loss recognized on the loss of control of a subsidiary should be required? If not, why?*

### **Question 13—Transition**

The requirements of this proposed Statement would be applied retrospectively except in limited circumstances for which the Board believes retrospective application is likely to be impracticable (refer to paragraphs B48–B50).

*Question 13—Do you agree with the proposed transition requirements? If not, what alternative do you propose and why?*

### **Public Roundtable Meetings**

The Board plans to hold public roundtable meetings with constituents to discuss issues related to proposed Statement 141(R), which is being issued at the same time as this proposed Statement. The Board is not planning to hold separate roundtable meetings on this proposed Statement. However, certain issues raised by this proposed Statement that are related to issues raised by the proposed Statement on business combinations may be discussed in the roundtable meetings for business combinations. The roundtable meetings are scheduled to be held on October 27, 2005 in Norwalk, Connecticut. If you wish to participate in the roundtable meetings, you must notify the Board by September 15, 2005 by sending an email to [director@fasb.org](mailto:director@fasb.org). Each roundtable meeting can accommodate a limited number of participants. The Board may not be able to accommodate all requests to participate. You will be notified about whether you were selected to participate by September 30, 2005.

## Summary

This proposed Statement would replace Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, as amended by FASB Statement No. 94, *Consolidation of All Majority-Owned Subsidiaries*. It also would establish standards for the accounting and reporting of noncontrolling interests (sometimes called *minority interests*) in consolidated financial statements and for the loss of control of subsidiaries.

This proposed Statement would carry forward, without reconsideration, the provisions of ARB 51, as amended, related to consolidation purpose and policy and certain of the provisions related to consolidation procedure. It would not change the requirement in ARB 51 that all companies in which the parent has a controlling financial interest be consolidated. To facilitate its objective of codification and simplification of U.S. generally accepted accounting principles (GAAP), the Financial Accounting Standards Board (Board) decided to incorporate into this proposed Statement the guidance in ARB 51 and the guidance for the accounting and reporting of noncontrolling interests and loss of control of subsidiaries. This proposed Statement also would amend FASB Statement No. 128, *Earnings per Share*, to specify the computation, presentation, and disclosure requirements for earnings per share if a parent has one or more partially owned subsidiaries. The Board is issuing this proposed Statement concurrently with proposed FASB Statement No. 141 (revised 200X), *Business Combinations*.

### Reasons for Issuing This Proposed Statement

The primary reasons for issuing this proposed Statement are to:

1. **Reconsider and improve the consistency of the procedures used in the accounting for and reporting of noncontrolling interests in subsidiaries.** Diversity in practice exists for the accounting for and reporting of noncontrolling interests in subsidiaries because of an absence of clear accounting guidance. Noncontrolling interests have been reported most commonly as “mezzanine” items between liabilities and equity, but also as liabilities or as equity. This proposed Statement would provide the accounting and reporting guidance that resolves those inconsistent practices and specifies that noncontrolling interests in subsidiaries are part of equity.
2. **Improve the relevance and transparency of information provided to investors, creditors, and other users of financial statements.** The Board believes that this proposed Statement, in conjunction with proposed Statement 141(R), would improve the relevance and transparency of information provided to investors, creditors, and other users of financial statements. Proposed Statement 141(R) would require that the assets (including goodwill) and liabilities of acquired businesses that are not wholly owned be recognized at their fair values (with limited exceptions) on the date control is obtained rather than measured partially at fair value, based on the percentage of ownership interest acquired, and partially at carryover basis. This proposed Statement would require that the subsequent acquisition of some or all of the noncontrolling interests in a subsidiary be accounted for as an equity transaction. In combination, those requirements would improve the relevance and transparency of financial

information because they would eliminate the current practice of recognizing layers at fair value each time some or all of the noncontrolling interest is acquired.

3. **Improve international comparability.** This proposed Statement is being issued as part of a joint effort with the International Accounting Standards Board (IASB) to promote the international convergence of accounting and reporting standards for noncontrolling interests. The Board believes that converging to a common set of high-quality financial accounting standards on an international basis improves the comparability of financial information around the world and simplifies the accounting for entities that issue financial statements under both U.S. GAAP and international financial reporting standards.

### **Differences between This Proposed Statement and ARB 51**

This proposed Statement would carry forward, without reconsideration, the provisions of ARB 51, as amended, related to consolidation purpose and policy and certain of the provisions related to consolidation procedure. This proposed Statement also would establish the following standards for the accounting and reporting of noncontrolling interests and loss of control of subsidiaries in consolidated financial statements:

- The equity interests of noncontrolling shareholders, partners, or other equity holders in subsidiaries would be accounted for and presented in equity, separately from the parent shareholders' equity, rather than as liabilities or as "mezzanine" items between liabilities and equity.
- Net income or loss and each component of other comprehensive income would be attributed to the controlling and noncontrolling interests based on relative ownership interests unless the controlling and noncontrolling interests have entered into an arrangement that requires a different attribution. In that case, the attribution would be based on the contractual requirements of that arrangement.
- Losses attributable to the noncontrolling interest that exceed the carrying value of the noncontrolling interest would be attributed to the noncontrolling interest rather than to the controlling interest.
- Once control of a subsidiary is obtained, changes in ownership interests in that subsidiary that do not result in a loss of control would be accounted for as equity transactions. The difference between the amount by which the noncontrolling interest is adjusted and the fair value of the consideration paid or received, if any, would be recognized directly in equity attributable to the controlling interest (for example, additional paid-in capital). No gain or loss would be recognized in consolidated net income. Thus, the acquisition of some or all of the noncontrolling interest in a subsidiary would not be accounted for by the *purchase method* as in current practice (called the *acquisition method* in proposed Statement 141(R)). That is because at the time the parent obtained control of the subsidiary, the assets (including goodwill) and liabilities of the subsidiary would have been recorded at their fair values in accordance with proposed Statement 141(R) rather than partially at fair value and partially at carryover basis.
- An entity with one or more partially owned subsidiaries would be required to provide in notes to the consolidated financial statements a separate schedule that shows the

effects of any transactions with the noncontrolling interest on the equity attributable to the controlling shareholders. An entity that presents earnings per share data also would be required to disclose in that schedule an additional per-share metric that includes in the numerator the effects of any equity transactions with the noncontrolling interest.

- On the date control of a subsidiary is lost, any retained investment in the former subsidiary would be remeasured to its fair value and a gain or loss, if any, would be recognized in consolidated income.

### **How the Changes in This Proposed Statement Would Improve Financial Reporting**

This proposed Statement would improve consistency of financial reporting and comparability among entities by requiring one method of accounting for and reporting of noncontrolling interests in consolidated financial statements.

This proposed Statement would provide more complete information than is currently provided in consolidated financial statements. Consolidated financial statements would be required to be presented as those of a single economic entity. Accordingly, the noncontrolling interest in the equity of subsidiaries would be accounted for and reported as equity since both the noncontrolling owners and the parent's owners have an ownership interest in the residual equity of the consolidated entity. This proposed Statement also would require additional disclosures that clearly identify and distinguish between the interests of the controlling and noncontrolling owners. Appropriate labeling and disclosure of amounts attributable to the controlling and noncontrolling interests would report information in consolidated financial statements that is representationally faithful, understandable and relevant to owners of the parent as well as to creditors and other users of consolidated financial statements.

The Board and the IASB worked together to reach the same conclusions on the noncontrolling interest and loss of control of subsidiaries issues addressed in this proposed Statement and, therefore, have taken another step toward the convergence of their standards.

### **How the Conclusions in This Proposed Statement Relate to the Board's Conceptual Framework**

This proposed Statement would result in greater consistency with the Board's conceptual framework because it would require that the noncontrolling interest in the equity of subsidiaries be accounted for and reported as equity, separately from the parent shareholders' equity. In current practice, noncontrolling interests in the equity of subsidiaries are reported most commonly as "mezzanine" items between liabilities and equity in the consolidated financial statements of the parent, but also as liabilities or as equity. The display of noncontrolling interests as liabilities has no conceptual support because noncontrolling interests do not meet the definition of liabilities in paragraph 35 of FASB Concepts Statement No. 6, *Elements of Financial Statements*. Not one of the entities involved—the parent, the subsidiary, or the consolidated entity—is obligated to transfer assets or provide services to the owners that hold equity interests in the subsidiary. Also, Concepts Statement 6 defines three elements of a statement of financial

position: assets, liabilities, and equity (or net assets). The display of noncontrolling interests as mezzanine items would require that a new element—noncontrolling interests in consolidated subsidiaries—be created specifically for consolidated financial statements. The Board believes that no compelling reason exists to create such a new element. A view of consolidated financial statements as those of a single economic entity supports classification as equity because noncontrolling shareholders, partners, or other equity holders in subsidiaries are owners of a residual interest in a component of the consolidated entity.

## **Benefits and Costs**

The mission of the FASB is to establish and improve standards of financial accounting and reporting for the guidance and education of the public, including preparers, auditors, and users of financial information. In fulfilling that mission, the Board strives to determine that a proposed standard will fill a significant need and that the costs imposed to meet that standard, as compared with other alternatives, are justified in relation to the overall benefits of the resulting information. The Board's consideration of each issue in a project includes the subjective weighing of the incremental improvement in financial reporting against the incremental cost of implementing the identified alternatives. At the end of that process, the Board considers the accounting provisions in the aggregate and assesses the related perceived costs on a qualitative basis.

The Board's assessment of the benefits and costs of the requirements in this proposed Statement was based on discussions with preparers, auditors, and users of financial statements. The Board acknowledges that initial implementation of this proposed Statement may result in costs to preparers, auditors, and users of financial information, which may not be borne evenly. However, the expected benefit of those costs is improved financial reporting resulting from consistency in the procedures used to account for and report noncontrolling interests, including consistency across international borders, and enhanced comparability of information across entities. Investors and creditors—both present and potential—and other users of financial information benefit from improvements in financial reporting, thereby facilitating the functioning of markets for capital and credit and the efficient allocation of resources in the economy.

Several procedures were conducted before the issuance of this proposed Statement to aid the Board in its assessment of the expected costs associated with implementing the requirements of this proposed Statement. Those procedures included conducting field visits and meeting with a resource group, which consists of preparers, auditors, and users of financial statements, to discuss the operationality of the proposed Statement. Those procedures also included conducting roundtable meetings with users of financial statements to discuss whether the proposed requirements would provide more useful information. Additionally, the Board decided to preclude retrospective application of certain provisions of this proposed Statement in order to minimize the costs of implementation. Based on the findings of those cost-benefit procedures, the Board concluded that the improvements to financial reporting resulting from this proposed Statement justify the costs it would impose.

## **Transition and Effective Date of This Proposed Statement**

This proposed Statement would be effective for annual periods beginning on or after December 15, 2006, with earlier application encouraged. The requirements of this Statement would not be permitted to be applied before the beginning of the annual period in which this Statement is issued. If applied before the effective date, this proposed Statement and proposed Statement 141(R) would be required to be applied at the same time.

This proposed Statement would require retrospective application of its presentation and disclosure requirements but would preclude retrospective application of the following provisions:

- The accounting for increases in a parent's controlling ownership interest in a subsidiary (acquisitions of noncontrolling interests) that occurred before application of this proposed Statement.
- The accounting for the loss of control of one or more subsidiaries that occurred before application of this proposed Statement.

# Proposed Statement of Financial Accounting Standards

## Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries

a replacement of ARB No. 51

June 30, 2005

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## Proposed Statement of Financial Accounting Standards

### Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries

a replacement of ARB No. 51

June 30, 2005

The shaded paragraphs were carried forward from ARB 51 and have not changed except as shown (additions/deletions). New paragraphs are not marked.

#### INTRODUCTION

1. This Statement provides standards for **consolidated financial statements**<sup>1</sup> of a **parent** and its **affiliates**. It also establishes standards for the accounting and reporting of **noncontrolling interests** (sometimes called *minority interests*) in consolidated financial statements and for the loss of control of **subsidiaries**.
2. This Statement replaces Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, as amended by FASB Statement No. 94, *Consolidation of All Majority-Owned Subsidiaries*. It carries forward, without reconsideration, the provisions of ARB 51, as amended, related to consolidation purpose and policy and certain of the provisions related to consolidation procedure. This Statement also amends FASB Statement No. 128, *Earnings per Share*, to specify the computation, presentation, and disclosure requirements for earnings per share if a parent has one or more partially owned subsidiaries.
3. The Board is issuing this Statement concurrently with proposed FASB Statement No. 141 (revised 200X), *Business Combinations*.

#### STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

##### Objective

4. This Statement specifies when a parent should include an entity in its consolidated financial statements and the procedures the parent should use to prepare its consolidated financial statements.

##### Key Terms

5. The following terms are used with specific meanings and are integral to understanding and applying this Statement.

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<sup>1</sup>Terms defined in paragraph 5 are set in **boldface type** the first time they appear.

- a. An **affiliate** is an entity that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with another entity. A parent and its subsidiary or subsidiaries are affiliates and subsidiaries of a common parent are affiliates.
- b. **Combined financial statements** are the financial statements of a combined group of commonly controlled entities (affiliates) or commonly managed entities presented as those of a combined economic entity.
- c. **Consolidated financial statements** are the financial statements of a consolidated group of entities that include a parent and all its subsidiaries presented as those of a single economic entity.
- d. The **controlling interest** is the portion of the equity (residual interest) of the consolidated group attributable to the parent and the parent's owners.
- e. The **noncontrolling interest** is the portion of the equity (residual interest) in a subsidiary attributable to the owners of the subsidiary other than the parent and the parent's affiliates.
- f. A **parent** is an entity that has a controlling financial interest in one or more subsidiaries.
- g. A **subsidiary** is 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.

### **Purpose of Consolidated Financial Statements**

6. The purpose of consolidated financial statements is to present, primarily for the benefit of the shareholders and creditors of the parent company, the results of operations and the financial position of a parent company and all its subsidiaries essentially as if the group were a single economic entity company with one or more branches or divisions. There is a presumption that consolidated financial statements are more meaningful than separate statements and that they are usually necessary for a fair presentation when one of the companies in the group directly or indirectly has a controlling financial interest in the other companies. [ARB 51, paragraph 1]

### **Consolidation Policy**

7. The usual condition for a controlling financial interest is ownership of a majority voting interest, and, therefore, as a general rule ownership by one company, directly or indirectly, of more than 50~~over fifty~~ percent of the outstanding voting shares of another company is a condition pointing toward consolidation.<sup>2</sup> However, there are exceptions to this general rule. A majority-owned subsidiary shall not be consolidated if control does not rest with the majority owner (as, for instance, if the subsidiary is in legal reorganization or in bankruptcy or operates under foreign exchange restrictions, controls, or other governmentally imposed uncertainties so severe that they cast significant doubt

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<sup>2</sup>AICPA Statement of Position 94-3, Reporting Related Entities by Not-for-Profit Organizations, and the AICPA Audit and Accounting Guide, "Health Care Organizations," provide additional guidance on the application of consolidation policy by not-for-profit organizations.

on the parent's ability to control the subsidiary).<sup>3</sup> [ARB 51, paragraph 2, as amended by Statement 94]

8. All majority-owned subsidiaries—all ~~those companies~~—in which a parent has a controlling financial interest through direct or indirect ownership of a majority voting interest—shall be consolidated except those described in the last sentence of paragraph ~~72~~. [ARB 51, paragraph 3, as amended by Statement 94]

9. A difference in fiscal periods of a parent and a subsidiary does not ~~of itself~~ justify the exclusion of the subsidiary from consolidation. It ordinarily is feasible for the subsidiary to prepare, for consolidation purposes, statements for a period ~~that~~<sup>which</sup> corresponds with or closely approaches the fiscal period of the parent. However, where the difference is not more than about three months, it usually is acceptable to use, for consolidation purposes, the subsidiary's statements for its fiscal period; when this is done, recognition should be given by disclosure or otherwise to the effect of intervening events ~~that~~<sup>which</sup> materially affect the financial position or results of operations. [ARB 51, paragraph 4]

~~Consolidated statements should disclose the consolidation policy which is being followed. In most cases this can be made apparent by the headings or other information in the statements, but in other cases a footnote is required.~~ [ARB 51, paragraph 5 (deleted)]

## **Consolidation Procedure Generally**

### **Elimination of Intercompany Investments**

10. In the preparation of consolidated financial statements, intercompany balances and transactions ~~should~~<sup>shall</sup> be eliminated. This includes intercompany open account balances, security holdings, sales and purchases, interest, dividends, etc. As consolidated financial statements are based on the assumption that they represent the financial position and operating results of a single economic entity~~business enterprise~~, such statements should not include gain or loss on transactions among the companies in the group. Accordingly, any intercompany profit or loss on assets remaining within the group should be eliminated; the concept usually applied for this purpose is gross profit or loss (refer to See also paragraph 1517). [ARB 51, paragraph 6, as amended by Statement 71]

11. The earned surplus (retained earnings) or deficit of a purchased subsidiary at the date of acquisition by the parent ~~shall~~<sup>should</sup> not be included in consolidated earned surplus. [ARB 51, paragraph 9]

~~When one company purchases two or more blocks of stock of another company at various dates and eventually obtains control of the other company, the date of acquisition (for the~~

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<sup>3</sup>Application of this paragraph has been interpreted by FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, and EITF Issue No. 96-16, "Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights."

purpose of preparing consolidated statements) depends on the circumstances. If two or more purchases are made over a period of time, the earned surplus of the subsidiary at acquisition should generally be determined on a step-by-step basis; however, if small purchases are made over a period of time and then a purchase is made which results in control, the date of the latest purchase, as a matter of convenience, may be considered as the date of acquisition. Thus there would generally be included in consolidated income for the year in which control is obtained the postacquisition income for that year, and in consolidated earned surplus the postacquisition income of prior years, attributable to each block previously acquired. For example, if a 45% interest was acquired on October 1, 1957 and a further 30% interest was acquired on April 1, 1958, it would be appropriate to include in consolidated income for the year ended December 31, 1958, 45% of the earnings of the subsidiary for the three months ended March 31, and 75% of the earnings for the nine months ended December 31, and to credit consolidated earned surplus in 1958 with 45% of the undistributed earnings of the subsidiary for the three months ended December 31, 1957. [ARB 51, paragraph 10 (deleted)]

12. When control of a subsidiary is purchased obtained during the year in a business combination accounted for by the acquisition method, the consolidated financial statements shall include only the subsidiary's revenues, expenses gains and losses after control is obtained. there are alternative ways of dealing with the results of its operations in the consolidated income statement. One method, which usually is preferable, especially where there are several dates of acquisition of blocks of shares, is to include the subsidiary in the consolidation as though it had been acquired at the beginning of the year, and to deduct at the bottom of the consolidated income statement the preacquisition earnings applicable to each block of stock. This method presents results which are more indicative of the current status of the group, and facilitates future comparison with subsequent years. Another method of prorating income is to include in the consolidated statement only the subsidiary's revenue and expenses subsequent to the date of acquisition. [ARB 51, paragraph 11 (revised)]

13. Shares of the parent held by a subsidiary shall be eliminated in consolidated financial statements and, therefore, shall should not be treated as outstanding shares stock in the consolidated statement of financial position balance sheet. [ARB 51, paragraph 13]

14. The amount of intercompany profit or loss to be eliminated in accordance with paragraph 106 is not affected by the existence of a noncontrolling minority interest. The complete elimination of the intercompany profit or loss is consistent with the underlying assumption that consolidated financial statements represent the financial position and operating results of a single economic entity business enterprise. The elimination of the intercompany profit or loss shall may be allocated proportionately between the controlling interest majority and noncontrolling minority interest. [ARB 51, paragraph 14]

15. If income taxes have been paid on intercompany profits on assets remaining within the group, those such taxes should be deferred or the intercompany profits to be eliminated in consolidation should be appropriately reduced. [ARB 51, paragraph 17]

### **Stock Dividends of Subsidiaries**

16. Occasionally, subsidiary companies capitalize earned surplus (retained earnings) arising since acquisition, by means of a stock dividend or otherwise. This does not require a transfer to capital surplus on consolidation, ~~because inasmuch as~~ the retained earnings in the consolidated financial statements should reflect the accumulated earnings of the consolidated group not distributed to the shareholders of, or capitalized by, the parent ~~company~~. [ARB 51, paragraph 18]

### **Combined Financial Statements**

17. To justify the preparation of consolidated financial statements, the controlling financial interest should rest directly or indirectly in one of the companies included in the consolidation. There are circumstances, however, where **combined financial statements** (as distinguished from consolidated financial statements) of commonly controlled companies are likely to be more meaningful than their separate statements. For example, combined financial statements would be useful where one individual owns a controlling interest in several corporations ~~that~~ which are related in their operations. ~~Combined financial statements would also be used to present the financial position and the results of operations of a group of unconsolidated subsidiaries. They also might be used to combine the financial statements of companies under common management.~~ [ARB 51, paragraph 22]

18. Where combined statements are prepared for a group of related companies, such as a ~~group of unconsolidated subsidiaries or~~ a group of commonly controlled companies, intercompany transactions and profits or losses ~~shall~~ should be eliminated, and if ~~there are problems in connection with such matters as~~ any noncontrolling minority interests, foreign operations, different fiscal periods, or income taxes, ~~they shall~~ should be treated in the same manner as in consolidated financial statements. [ARB 51, paragraph 23]

### **Parent-Company Statements**

19. In some cases parent-company statements may be needed, in addition to consolidated financial statements, to indicate adequately the position of bondholders and other creditors or preferred ~~shareholders~~ stockholders of the parent. Consolidating statements, in which one column is used for the parent ~~company~~ and other columns for particular subsidiaries or groups of subsidiaries, often are an effective means of presenting the pertinent information. However, this Statement requires consolidated financial statements as the general-purpose financial statements of companies having one or more subsidiaries; thus, parent-company statements are not a valid substitute for consolidated financial statements. [ARB 51, paragraph 24; APB 18, paragraph 14]

## **Reporting Noncontrolling Interests in Subsidiaries**

### **Reporting Noncontrolling Interests in the Consolidated Statement of Financial Position**

20. Noncontrolling interests in the net assets of subsidiaries shall be reported in the consolidated statement of financial position within equity, separately from the parent shareholders' equity.<sup>4</sup> That amount shall be clearly identified and labeled, for example, as *noncontrolling interest in subsidiaries*, to distinguish it from the components of equity of the parent, which includes the parent's controlling interest in its subsidiaries. (Paragraph A5 illustrates this requirement.)

### **Attributing Consolidated Net Income and Consolidated Comprehensive Income to the Controlling and Noncontrolling Interests**

21. Net income or loss and each component of other comprehensive income<sup>5</sup> shall be attributed to the controlling and noncontrolling interests. That attribution shall be based on relative ownership interests unless the controlling and noncontrolling interests have entered into a contractual arrangement that requires net income or loss or the components of other comprehensive income to be attributed differently between them. In that case, net income or loss and the components of other comprehensive income shall be attributed to the controlling and noncontrolling interests based on the contractual requirements of that arrangement.<sup>6</sup>

22. Losses applicable to the controlling and noncontrolling interests in a consolidated subsidiary may exceed their interests in the subsidiary's equity. The excess, and any further losses applicable to the controlling and noncontrolling interests, shall be attributed to those interests. That is, losses applicable to the noncontrolling interest shall continue to be attributed to the noncontrolling interest even if that attribution exceeds the equity attributable to the noncontrolling interest.

~~In the unusual case in which losses applicable to the minority interest in a subsidiary exceed the minority interest in the equity capital of the subsidiary, such excess and any further losses applicable to the minority interest should be charged against the majority interest, as there is no obligation of the minority interest to make good such losses.~~

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<sup>4</sup>Financial instruments classified as liabilities, such as those classified as liabilities under FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, are not noncontrolling interests for purposes of this Statement. For example, mandatorily redeemable financial instruments of subsidiaries classified as liabilities under Statement 150 that are owned by noncontrolling shareholders are not subject to the requirements of this Statement.

<sup>5</sup>The term *other comprehensive income* is used in this Statement with the same meaning as in paragraph 10 of FASB Statement No. 130, *Reporting Comprehensive Income*.

<sup>6</sup>The Board is researching in a separate effort whether or how variable interest entities should apply the guidance in this paragraph (refer to paragraph B19). In addition, paragraph 38 of FASB Statement No. 142, *Goodwill and Other Intangible Assets*, as amended by proposed Statement 141(R), provides guidance for assigning goodwill impairment losses to controlling and noncontrolling interests of a partially owned subsidiary.

~~However, if future earnings do materialize, the majority interest should be credited to the extent of such losses previously absorbed.[ARB 51, paragraph 15 (deleted)]~~

### **Changes in Ownership Interests in a Subsidiary**

23. Once control of a subsidiary is obtained, changes in ownership interests in that subsidiary that do not result in a loss of control 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. The carrying amount of the noncontrolling interest shall be adjusted to reflect the change in its ownership interest in the subsidiary's net assets. Any difference between the amount by which the noncontrolling interest is adjusted and the fair value of the consideration paid or received, if any, shall be recognized directly in equity attributable to the controlling interest (for example, additional paid-in capital).<sup>7</sup>

24. On the date control of a subsidiary is obtained, the noncontrolling interest in the ownership of the subsidiary's net assets is measured and recognized in accordance with paragraph 58 of proposed Statement 141(R).<sup>8</sup> The portion of goodwill initially allocated to the noncontrolling interest in accordance with proposed Statement 141(R) may not equal the total recognized goodwill multiplied by the noncontrolling interest's ownership percentage in the subsidiary. For example, if an 80 percent controlling interest in a subsidiary is purchased at an amount that exceeds 80 percent of the fair value of that subsidiary taken as a whole, on the date control is obtained, the controlling interest is attributed 80 percent of the subsidiary's assets (other than goodwill) and liabilities but more than 80 percent of the recognized goodwill. If the relative ownership interests held by the controlling and noncontrolling interests in the subsidiary change, goodwill shall be reattributed between the controlling and noncontrolling interests based on the relative carrying amounts of goodwill allocated to them.

25. In calculating earnings per share data in accordance with Statement 128, the numerator of the earnings per share calculation shall not be adjusted for any increase or decrease to equity (additional paid-in capital) related to changes in a subsidiary's ownership interests that were accounted for as equity transactions in accordance with paragraph 23.

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<sup>7</sup>An increase in a parent's ownership interest in an investee that results in the parent obtaining control of and consolidating that investee (called a business combination achieved in stages) is accounted for under paragraphs 55–57 of proposed Statement 141(R) if the investee meets the definition of a business as provided in that Statement. A decrease in a parent's ownership interest in a subsidiary that results in the parent losing control of that subsidiary is accounted for under paragraphs 26–29 of this Statement.

<sup>8</sup>Paragraphs A62 and A63 of proposed Statement 141(R) describes how to allocate goodwill to the controlling (acquirer) and noncontrolling interests on the date control is obtained if less than 100 percent of the controlling ownership interests are acquired.

## **Loss of Control of Subsidiaries**

26. Control of a subsidiary may be lost if the parent or other members of the consolidated group sell their controlling financial interest in a subsidiary or through other means. Control may be lost with or without a change in absolute or relative ownership levels or as a result of a contractual agreement. Control of a subsidiary also may be lost if that subsidiary becomes subject to the control of a government, court, administrator, or regulator.

### **Calculating the Gain or Loss When Control of a Subsidiary Is Lost**

27. If control of a subsidiary is lost, any gain or loss shall be recognized in consolidated net income and measured as the difference between the following:

- a. The aggregate of (1) the fair value of the proceeds, if any, from the transaction that resulted in the loss of control and (2) the fair value of any retained investment in the former subsidiary at the date control is lost
- b. The parent's interest in the former subsidiary's net assets at the date control is lost, which includes its share of the other comprehensive income of the former subsidiary.

28. If a parent loses control of a partially owned subsidiary, the noncontrolling interest's share of the carrying amount of the net assets of the former subsidiary at the date control is lost shall be derecognized against the carrying amount of the noncontrolling interest and no gain or loss shall be recognized. (Paragraphs A10–A15 illustrate these requirements.)

### **Guidance for When Multiple Arrangements That Result in the Loss of Control of a Subsidiary Should Be Accounted for as a Single Arrangement**

29. A parent may lose control of a subsidiary in two or more arrangements (that is, both transactions and other arrangements). Each arrangement shall be accounted for separately unless conditions indicate that they are part of a single arrangement. The presence of any one of the following factors indicates that multiple arrangements should be accounted for as a single arrangement unless it can be clearly demonstrated that such accounting would be inappropriate:

- a. The arrangements are entered into at the same time or as part of a continuous sequence and in contemplation of one another.
- b. The arrangements form a single arrangement that achieves, or is designed to achieve, an overall commercial effect.
- c. The occurrence of one arrangement is dependent on the occurrence of the other.
- d. One or more of the arrangements considered on their own are not economically justified, but they are economically justified when considered together. An example is when one disposal is priced below market, compensated for by a subsequent disposal priced above market.

## Disclosures

30. A parent with one or more partially owned subsidiaries shall disclose:
- a. Separately, on the face of the consolidated financial statements, the amounts of consolidated net income and consolidated comprehensive income and the related amounts of each attributable to the controlling interest and the noncontrolling interest.<sup>9</sup> (Paragraphs A6 and A7 illustrate this requirement.)
  - b. Amounts attributable to the *controlling interest* for the following, if reported in the financial statements:
    - (1) Income from continuing operations
    - (2) Discontinued operations
    - (3) Extraordinary items
    - (4) Cumulative effect of changes in accounting principles
    - (5) Components of other comprehensive income.

(Paragraphs A6 and A7 illustrate these requirements.)
  - c. A reconciliation of the changes in the noncontrolling interest from the amount reported in equity as of the beginning of each reporting period to the amount reported at the end of each reporting period. That reconciliation shall be provided in the consolidated statement of changes in equity, if presented, otherwise in notes to consolidated financial statements, and shall separately disclose:
    - (1) Net income attributable to the noncontrolling interest
    - (2) Investments by and distributions to the noncontrolling interest acting in their capacity as owners
    - (3) Each component of other comprehensive income.

(Paragraph A8 illustrates this requirement.)
  - d. In notes to the consolidated financial statements, a separate schedule that shows the effects of any transactions with the noncontrolling interest on the equity attributable to the controlling interest. An entity that presents earnings per share data also shall disclose on that schedule an additional per-share metric that includes in the calculation the effects of any equity transactions with the noncontrolling interest. The numerator of that additional per-share metric shall be calculated as the sum of net income attributable to the controlling interest and the effects of any equity transactions with the noncontrolling interest. The denominator shall be the weighted average number of common shares determined in accordance with Statement 128. (Paragraph A9 illustrates this requirement.)

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<sup>9</sup>The controlling interest and the noncontrolling interest are part of the equity of the consolidated group; therefore, the amounts attributed to the noncontrolling interest are not income or expense. Revenues, expenses, gains, and losses are reported on the face of the consolidated income statement at consolidated amounts.

31. If control of a subsidiary is lost, the amount of any gain or loss recognized in accordance with paragraph 27 and the caption in the income statement in which that gain or loss is recognized (if not separately presented on the face of the income statement) shall be disclosed. If control of a subsidiary is lost, but an investment is retained, the portion of the gain or loss related to the remeasurement of the retained investment to its fair value shall be disclosed separately from the total gain or loss recognized.

### **Effective Date and Transition**

32. This Statement is effective for annual periods beginning on or after December 15, 2006. Earlier application is encouraged. The requirements of this Statement shall not be applied before the beginning of the annual period in which this Statement is issued. If this Statement is applied before the effective date, that fact shall be disclosed and proposed Statement 141(R) shall be applied at the same time.

33. The following provisions shall be applied retrospectively:

- a. The noncontrolling interest shall be reclassified to equity, separate from the parent shareholders' equity, in the consolidated statement of financial position.
- b. Consolidated net income shall be adjusted to include consolidated net income attributable to both the controlling interest and the noncontrolling interest.
- c. Consolidated net income and the components of other comprehensive income shall be attributed to the controlling and noncontrolling interests in accordance with paragraph 21 of this Statement.
- d. Losses applicable to the noncontrolling interest in a subsidiary that exceeded the noncontrolling interest in the equity capital of the subsidiary that were attributed to the controlling interest in accordance with paragraph 15 of ARB 51 shall be reattributed to the controlling and noncontrolling interests in accordance with paragraph 22 of this Statement if the entity controls the subsidiary when this Statement is applied.
- e. Gains or losses recognized in net income for decreases in a parent's controlling ownership interest in a subsidiary that did not result in a loss of control of that subsidiary shall be reclassified from net income to equity.
- f. The disclosures required in paragraph 30 shall be provided for all periods presented.
- g. If control of a subsidiary was lost before this Statement is applied, the amount of any gain or loss recognized and the caption in the income statement in which that gain or loss is recognized (if not separately presented on the face of the income statement) shall be disclosed for all periods presented.

34. The following provisions shall not be applied retrospectively:

- a. The requirements in paragraph 23 for accounting for increases in a parent's controlling ownership interest in a subsidiary (acquisitions of noncontrolling interests). The requirements in paragraph 23 do not apply to increases that occurred before this Statement is applied. If a parent's ownership interest in its subsidiary increases after this Statement is applied, that event shall be accounted for as an

equity transaction, and the values of the subsidiary's assets and liabilities in the consolidated financial statements shall not be changed.

- b. The requirements in paragraphs 26–29 for the accounting for the loss of control of one or more subsidiaries. Any gain or loss recognized for the loss of control of one or more subsidiaries before this Statement is applied shall not be adjusted retrospectively. Also, the carrying amount of any retained investment in a former subsidiary in which control was lost before application of this Statement shall not be adjusted retrospectively.

35. Paragraphs 20–34 of this Statement shall not be applied by not-for-profit organizations until interpretative guidance related to those paragraphs is issued.<sup>10</sup>

<p style="text-align: center;"><b>The provisions of this Statement need not be applied to immaterial items.</b></p>
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<sup>10</sup>Paragraph 5 of AICPA Statement of Position 94-3, *Reporting Related Entities by Not-for-Profit Organizations*, requires that not-for-profit organizations with a controlling financial interest in a for-profit entity through direct or indirect ownership of a majority voting interest in that entity follow the guidance in ARB 51, as amended, in determining whether the financial position, results of operations, and cash flows of the for-profit entity should be included in the not-for-profit organization's financial statements. This Statement replaces ARB 51 and carries forward that guidance. Paragraphs 20–34 of this Statement also establishes guidance for the accounting and reporting of noncontrolling interests in consolidated financial statements and for the loss of control of subsidiaries. The Board is considering how that guidance should be applied by not-for-profit organizations in a separate project.

## Appendix A

### IMPLEMENTATION GUIDANCE

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## Appendix A

### IMPLEMENTATION GUIDANCE

#### Introduction

A1. This appendix discusses generalized situations and provides examples with simplified assumptions to illustrate how to apply the provisions of this Statement. The examples do not address all possible situations or applications of this Statement.

A2. This appendix is divided into two sections. Paragraphs A3–A9 provide examples, that illustrate one way an entity with one or more partially owned subsidiaries could meet the presentation and disclosure requirements of this Statement. Paragraphs A10–A15 illustrate the application of the loss of control of subsidiaries guidance in paragraphs 26–29.

#### **Illustrations of the Presentation and Disclosure Requirements for an Entity with One or More Partially Owned Subsidiaries**

A3. The examples are based on the following assumptions:

Entity X, the parent, has one foreign subsidiary, Subsidiary A.

a. Subsidiary A

- (1) As of January 1, 20X6, Entity X owns 80 percent of Subsidiary A.
- (2) On January 15, 20X6, Subsidiary A purchases a portfolio of securities that it classifies as available for sale. Subsidiary A's available-for-sale securities (valued at \$112,000 on December 31, 20X6) are sold on January 1, 20X7, for a pretax gain of \$26,667 (\$20,000 after tax, assuming a 25 percent tax rate).
- (3) On January 30, 20X7, Entity X sells a portion of its shares in Subsidiary A to a third party for cash of \$17,000 and decreases its interest in Subsidiary A to 70 percent. Entity X continues to control Subsidiary A after the transaction. The carrying value of the interest sold is \$16,910, which includes accumulated other comprehensive income of \$1,870. The accumulated other comprehensive income is reattributed to the noncontrolling interest. This transaction is accounted for as an equity transaction in accordance with paragraph 23. (Refer to the consolidated statement of changes in equity in paragraph A8 for the details of this transaction.)
- (4) On July 1, 20X7, Entity X purchases shares of Subsidiary A from the noncontrolling shareholders for cash of \$57,000 and increases its interest in Subsidiary A to 90 percent. The carrying value of the interest purchased is \$54,900, which includes accumulated other comprehensive income of \$5,400. The accumulated other comprehensive income is reattributed to Entity X (the controlling interest). This transaction is accounted for as an equity transaction in accordance with paragraph 23. (Refer to the consolidated statement of changes in equity in paragraph A8 for the details of this transaction.)

b. Entity X

- (1) Entity X has 200,000 shares of common stock outstanding throughout 20X6 and 20X7 and pays dividends of \$10,000 each year on those common shares. Entity X has no dilutive shares.
- (2) On June 30, 20X7, Entity X issues 5,000 shares of preferred stock for proceeds of \$50,000. On December 31, 20X7, Entity X pays dividends of \$1 per share on those preferred shares.

Additional information about the operations of Entity X for the years 20X6 and 20X7 is presented in the following table:

	20X7			20X6		
	Controlling	Noncontrolling	Consolidated	Controlling	Noncontrolling	Consolidated
	Interest	Interest		Interest	Interest	
Discontinued operations	\$ —	\$ —	\$ —	\$ (5,600)	\$ (1,400)	\$ (7,000)
Extraordinary items	\$ —	\$ —	\$ —	\$ (16,800)	\$ (4,200)	\$ (21,000)
Cumulative effect of accounting change	\$ —	\$ —	\$ —	\$ (2,000)	\$ (500)	\$ (2,500)
Other comprehensive income:						
Foreign currency translation adjustment	\$ 4,800	\$ 1,200	\$ 6,000	\$ 6,400	\$ 1,600	\$ 8,000
Unrealized holding gains (on securities) arising during period	—	—	—	16,000	4,000	20,000
Reclassification adjustment (for securities)	(16,000)	(4,000)	(20,000)	—	—	—
Net unrealized gain on securities	(16,000)	(4,000)	(20,000)	16,000	4,000	20,000
Total other comprehensive income	<u>\$ (11,200)</u>	<u>\$ (2,800)</u>	<u>\$ (14,000)</u>	<u>\$ 22,400</u>	<u>\$ 5,600</u>	<u>\$ 28,000</u>

A4. The following financial statements and the additional schedule (paragraph A9) illustrate one way an entity with one or more partially owned subsidiaries could meet the presentation and disclosure requirements of this Statement.

**Consolidated Statement of Financial Position**

A5. The following consolidated statement of financial position illustrates the requirement in paragraph 20 of this Statement.

**Entity X**  
**Consolidated Statement of Financial Position**  
**December 31**

	<u>20X7</u>	<u>20X6</u>
Assets:		
Total assets	<u>\$ 1,466,500</u>	<u>\$ 1,469,750</u>
Liabilities:		
Total liabilities	<u>\$ 532,750</u>	<u>\$ 638,250</u>
Equity:		
Controlling interest:		
Common stock, \$1 par	200,000	200,000
Preferred stock, \$10 par	50,000	—
Paid-in capital	394,460	400,000
Retained earnings	242,900	160,900
Accumulated other comprehensive income	<u>14,330</u>	<u>22,000</u>
Total controlling interest	<u>901,690</u>	<u>782,900</u>
Noncontrolling interest in subsidiary	<u>32,060</u>	<u>48,600</u>
Total equity	<u>933,750</u>	<u>831,500</u>
Total liabilities and equity	<u>\$ 1,466,500</u>	<u>\$ 1,469,750</u>

## Consolidated Income Statement

A6. The following consolidated income statement illustrates the requirements in paragraph 30(a) and 30(b) of this Statement.

<b>Entity X</b>		
<b>Consolidated Income Statement</b>		
<b>Year Ended December 31</b>		
	<u><b>20X7</b></u>	<u><b>20X6</b></u>
Revenues	\$ 170,000	\$ 155,000
Expenses	(35,000)	(27,000)
Realized gain on sale of available-for-sale securities	<u>26,667</u>	<u>—</u>
Income from continuing operations, before tax	161,667	128,000
Income tax expense	<u>(40,417)</u>	<u>(32,000)</u>
Income from continuing operations, after tax	121,250	96,000
Discontinued operations, net of tax	—	(7,000)
Extraordinary item, net of tax	—	(21,000)
Cumulative effect of accounting change, net of tax	<u>—</u>	<u>(2,500)</u>
Consolidated net income	121,250	65,500
Less: Consolidated net income attributable to noncontrolling interest in subsidiary	<u>24,250</u>	<u>13,100</u>
Consolidated net income attributable to controlling interest	97,000	52,400
Preferred stock dividend	<u>(5,000)</u>	<u>—</u>
Consolidated net income attributable to common shareholders of parent	<u>\$ 92,000</u>	<u>\$ 52,400</u>
Earnings per share—basic and diluted:		
Income before discontinued operations, extraordinary item, and cumulative effect of an accounting change attributable to common shareholders of parent	<u>\$ 0.46</u>	<u>\$ 0.38</u>
Consolidated net income attributable to common shareholders of parent	<u>\$ 0.46</u>	<u>\$ 0.26</u>

**Supplemental Information\***  
**Year Ended December 31**

	<u>20X7</u>	<u>20X6</u>
Income from continuing operations, net of tax, attributable to controlling interest	\$ 97,000	\$ 76,800
Less: Preferred stock dividend	<u>5,000</u>	<u>—</u>
Income from continuing operations, net of tax, attributable to common shareholders of the parent	92,000	76,800
Less: Amounts attributable to common shareholders of the parent for:		
Discontinued operations, net of tax	—	(5,600)
Extraordinary item, net of tax	—	(16,800)
Cumulative effect of an accounting change, net of tax	<u>—</u>	<u>(2,000)</u>
Net income attributable to common shareholders of the parent	<u>\$ 92,000</u>	<u>\$ 52,400</u>
Weighted-average common shares outstanding, basic and diluted	<u>200,000</u>	<u>200,000</u>

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\*This information may be disclosed on the face of the consolidated income statement or in notes to the consolidated financial statements. This disclosure duplicates the disclosure in the schedule in paragraph A9 and is not required to be disclosed twice.

## Consolidated Statement of Comprehensive Income

A7. The following statement of consolidated comprehensive income illustrates the requirements in paragraphs 30(a) and 30(b)(5) of this Statement.

	<u>20X7</u>	<u>20X6</u>
Consolidated net income	\$ 121,250	\$ 65,500
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	6,000	8,000
Unrealized gains on securities:		
Unrealized holding gains arising during period	—	20,000
Less: Reclassification adjustment for realized gains included in net income	(20,000)	—
Other comprehensive income (loss), net of tax:	(14,000)	28,000
Total consolidated comprehensive income	107,250	93,500
Less: Consolidated comprehensive income (loss) attributable to noncontrolling interest in subsidiary	21,450	18,700
Consolidated comprehensive income attributable to controlling interest	<u>\$ 85,800</u>	<u>\$ 74,800</u>

## Consolidated Comprehensive Income Amounts Attributable to Controlling Interest Year Ended December 31

	<u>20X7</u>	<u>20X6</u>
Controlling interest, net of tax:		
Net income	\$ 97,000	\$ 52,400
Foreign currency translation adjustments	4,800	6,400
Unrealized gains on securities	(16,000)	16,000
Other comprehensive income	(11,200)	22,400
Consolidated comprehensive income attributable to controlling interest	<u>\$ 85,800</u>	<u>\$ 74,800</u>

\*FASB Statement No. 130, *Reporting Comprehensive Income*, includes examples of a one-statement approach and a two-statement approach to reporting comprehensive income. This example illustrates the two-statement approach.

## Consolidated Statement of Changes in Equity

A8. The following consolidated statement of changes in equity illustrates the requirements in paragraph 30(c) of this Statement.

	Entity X Consolidated Statement of Changes in Equity Year Ended December 31, 20X6									
	Controlling Interest							Noncontrolling Interest*		
	<u>Total</u>	<u>Comprehensive Income</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Common Stock</u>	<u>Preferred Stock</u>	<u>Paid-in Capital</u>	<u>Noncontrolling Interest</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total Noncontrolling Interest</u>
Beginning balance	\$ 748,000		\$ 118,500	\$ (400)	\$ 200,000		\$ 400,000	\$ 30,000	\$ (100)	\$ 29,900
Comprehensive income:										
Net income (loss)	65,500	\$ 65,500	52,400					13,100		13,100
Other comprehensive income, net of tax:										
Unrealized gains on securities	20,000	20,000		16,000					4,000	4,000
Foreign currency translation adjustment	8,000	8,000		6,400					1,600	1,600
Other comprehensive income		28,000		22,400					5,600	5,600
Comprehensive income		<u>\$ 93,500</u>								
Common stock issued										
Dividends declared on common stock	<u>(10,000)</u>		<u>(10,000)</u>							
Ending balance	<u>\$ 831,500</u>		<u>\$ 160,900</u>	<u>\$ 22,000</u>	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ 400,000</u>	<u>\$ 43,100</u>	<u>\$ 5,500</u>	<u>\$ 48,600</u>

Year Ended December 31, 20X7

	Controlling Interest						Noncontrolling Interest*			
	<u>Total</u>	<u>Comprehensive Income</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Common Stock</u>	<u>Preferred Stock</u>	<u>Paid-in Capital</u>	<u>Noncontrolling Interest</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total Noncontrolling Interest</u>
Beginning balance	\$ 831,500		\$ 160,900	\$ 22,000	\$ 200,000	\$ -	\$ 400,000	\$ 43,100	\$ 5,500	\$ 48,600
Issuance of preferred stock	50,000					50,000				
Comprehensive income:										
Net income (loss)	121,250	\$ 121,250	97,000					24,250		24,250
Other comprehensive income (loss), net of tax:										
Unrealized gains on securities (net of reclassification adjustment)	(20,000)	(20,000)		(16,000)					(4,000)	(4,000)
Foreign currency translation adjustment	6,000	6,000		4,800					1,200	1,200
Other comprehensive income (loss)		<u>(14,000)</u>		<u>(11,200)</u>					<u>(2,800)</u>	<u>(2,800)</u>
Comprehensive income		<u>107,250</u>								
Sale of subsidiary shares to noncontrolling interest	17,000			(1,870)			1,960	15,040	1,870	16,910
Purchase of subsidiary shares from noncontrolling interest	(57,000)			5,400			(7,500)	(49,500)	(5,400)	(54,900)
Dividends declared on common stock	(10,000)		(10,000)							
Dividends declared on preferred stock	(5,000)		(5,000)							
Ending balance	<u>\$ 933,750</u>		<u>\$ 242,900</u>	<u>\$ 14,330</u>	<u>\$ 200,000</u>	<u>\$ 50,000</u>	<u>\$ 394,460</u>	<u>\$ 32,890</u>	<u>\$ (830)</u>	<u>\$ 32,060</u>
<b>Reclassification amount:</b>										
Unrealized holding gains arising during period		\$ -								
Less: Reclassification adjustment for gains included in net income		<u>(20,000)</u>								
Net unrealized gains on securities		<u>\$ (20,000)</u>								

\*For illustration purposes, the accumulated other comprehensive income attributable to the noncontrolling interest has been shown separate from the other equity items attributable to the noncontrolling interest. That separate presentation is neither required nor precluded by this Statement.

**Additional Schedule That Illustrates the Impact of Transactions with Noncontrolling Interests on the Equity Available to the Controlling Interest**

A9. The following schedule illustrates the requirements in paragraphs 30(b) and 30(d) of this Statement. An entity also may use this schedule to meet other disclosure requirements required by this and other Statements.

**Entity X**  
**Notes to Consolidated Financial Statements**  
**Net Income Attributable to Common Shareholders of Parent, Transfers (to) from Noncontrolling Interest, and Additional Per-Share Data\***  
**Year Ended December 31**

*The purpose of this schedule is to disclose the effects of transactions with noncontrolling shareholders on the equity available to the common shareholders of the parent and to disclose how those transactions with noncontrolling interests affect per-share amounts available to the common shareholders of the parent.*

	<u>20X7</u>	<u>20X6</u>
Income from continuing operations, net of tax	\$ 121,250	\$ 96,000
Less: Income from continuing operations, net of tax, attributable to noncontrolling interest	<u>24,250</u>	<u>19,200</u>
Income from continuing operations, net of tax, attributable to controlling interest	<u>97,000</u>	<u>76,800</u>
Less: Preferred stock dividend	<u>5,000</u>	<u>—</u>
Income from continuing operations, net of tax, attributable to common shareholders of the parent	<u>92,000</u>	<u>76,800</u>
Less: Amounts attributable to common shareholders of the parent for:		
Discontinued operations, net of tax	—	(5,600)
Extraordinary item, net of tax	—	(16,800)
Cumulative effect of an accounting change, net of tax	<u>—</u>	<u>(2,000)</u>
Net income attributable to common shareholders of the parent	<u>92,000</u>	<u>52,400</u>
Transfers (to) from the noncontrolling interest:		
Premium received from sale of subsidiary shares to noncontrolling interest	1,960	—
Premium paid to acquire subsidiary shares from noncontrolling interest	<u>(7,500)</u>	<u>—</u>
Net transfers to noncontrolling interest in subsidiary	<u>(5,540)</u>	<u>—</u>
Change from net income attributable to common shareholders of the parent and transfers to noncontrolling interest in subsidiary	<u>\$ 86,460</u>	<u>\$ 52,400</u>

Per share data—basic and diluted:

Income from continuing operations attributable to common shareholders of the parent	\$ 0.46	\$ 0.38
Less: Amounts attributable to common shareholders of the parent for:		
Discontinued operations	—	(0.03)
Extraordinary items	—	(0.08)
Cumulative effect of accounting change	<u>—</u>	<u>(0.01)</u>
Net income attributable to common shareholders of the parent	<u>0.46</u>	<u>0.26</u>
Net transfers to noncontrolling interest in subsidiary	<u>(0.03)</u>	<u>—</u>
Net income attributable to common shareholders of the parent and transfers to noncontrolling interest in subsidiary	<u>\$ 0.43</u>	<u>\$ 0.26</u>
Weighted-average common shares outstanding, basic and diluted	<u>200,000</u>	<u>200,000</u>

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\* This schedule is required to be presented in notes to the consolidated financial statements.

## Loss of Control of Subsidiaries

A10. Paragraph 27 requires that if control of a subsidiary is lost, any gain or loss shall be recognized in consolidated net income. The gain or loss, if any, is the difference between the following:

- a. The aggregate of (1) the fair value of the proceeds, if any, from the transaction that resulted in the loss of control and (2) the fair value of any retained investment in the former subsidiary at the date control is lost.
- b. The parent's interest in the former subsidiary's net assets at the date control is lost, which includes its share of the other comprehensive income of the former subsidiary.

A11. The following example illustrates the application of paragraphs 27 and 28 of this Statement.

A12. Entity Y previously acquired a 70 percent interest in, and control of, Subsidiary B for \$70,000. On December 31, 20X8, the fair value of Subsidiary B as a whole is \$150,000, and its carrying amount is \$110,000. The carrying amount of the noncontrolling interests, including the noncontrolling interests' portion of other accumulated comprehensive income, is \$33,000. On that date, Entity Y sells a portion of its interest in Subsidiary B to a third party for cash proceeds of \$90,000, reducing its interest to 10 percent. As a result of that sale, Entity Y loses control of Subsidiary B but retains a noncontrolling ownership interest (investment) in the subsidiary. The fair value of the retained investment on that date is \$15,000.

A13. The consolidated gain on disposal is calculated as follows:

Cash proceeds	\$ 90,000
Fair value of retained investment	<u>15,000</u>
Subtotal	105,000
Less: Entity Y's share of net assets	<u>77,000</u>
Consolidated gain on sale	<u>\$ 28,000</u>

A14. Because Subsidiary B was partially owned by Entity Y at the date control was lost, the noncontrolling interests' share of the carrying amount of the net assets of the former subsidiary is derecognized against the carrying amount of the noncontrolling interests (including the accumulated other comprehensive income attributable to them). No gain or loss related to the noncontrolling interest is recognized in consolidated net income.

A15. FASB Statement No. 142, *Goodwill and Other Intangible Assets*, requires that goodwill be tested for impairment if there is "a more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of" (paragraph 28(e)). FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, requires that an impairment loss be recognized if the carrying amount of a long-lived asset (asset group) is not recoverable and exceeds its fair

value. A long-lived asset (asset group) is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. One example of such a change in circumstance is when there is “a current expectation that, more likely than not, a long-lived asset (asset group) will be sold or otherwise disposed of significantly before the end of its previously estimated useful life” (paragraph 8(f); footnote reference omitted). Therefore, if appropriate, an impairment loss should be recognized for the goodwill and long-lived assets of a subsidiary that will be sold or otherwise disposed of before control of the subsidiary is lost. Additionally, because a subsidiary may be a *component of an entity* as defined in paragraph 41 of Statement 144, the results of operations of a subsidiary that meet the criteria for recognition for classification as held for sale should be reported in discontinued operations when the criteria in paragraph 42 of that Statement are met.

## Appendix B

### BASIS FOR CONCLUSIONS

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## Appendix B

### BASIS FOR CONCLUSIONS

#### Introduction

B1. This appendix summarizes considerations that Board members deemed significant in reaching the conclusions in this Statement. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

B2. This Statement carries forward, without reconsideration, the provisions of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, as amended by FASB Statement No. 94, *Consolidation of All Majority-Owned Subsidiaries*, related to consolidation purpose and policy and certain provisions related to consolidation procedure. To facilitate its objective of codification and simplification of U.S. generally accepted accounting principles (GAAP), the Board decided to incorporate into this Statement the guidance in ARB 51 and the guidance for the accounting and reporting of noncontrolling interests and loss of control of subsidiaries.

B3. This basis for conclusions does not discuss the requirements in ARB 51. Rather, it discusses only the Board's bases for its decisions related to the accounting and reporting of noncontrolling interests in subsidiaries and loss of control of subsidiaries. The Board and the International Accounting Standards Board (IASB) considered those issues jointly. The two Boards shared staff and other resources and coordinated their deliberations. However, the Board and the IASB separately deliberated the issues in the scope of this project. When the Board and the IASB reached different conclusions, this basis for conclusions discusses the reasons for those decisions.

#### **Why the Board Undertook a Project to Reconsider the Accounting and Reporting of Noncontrolling Interests in Subsidiaries**

B4. As discussed in Appendix C, the Board has deliberated issues related to noncontrolling interests in three separate projects. The third project, which was the second phase of the Board's project on business combinations, led directly to the issuance of this Statement.

B5. In August 1996, the Board added to its agenda a project on accounting for business combinations. The objective of that project was to improve the transparency of accounting and reporting of business combinations by reconsidering the requirements of APB Opinions No. 16, *Business Combinations*, and No. 17, *Intangible Assets*, which were issued in 1970. In 1999, the Board decided to divide that project into several phases. The Board completed the first phase in June 2001, with the concurrent issuance of FASB Statements No. 141, *Business Combinations*, and No. 142, *Goodwill and Other Intangible Assets*.

B6. The second phase commenced upon the issuance of Statements 141 and 142. In the second phase of the project, the Board considered the purchase method procedures that Statement 141 carried forward, without reconsideration, from Opinion 16 and FASB Statement No. 38, *Accounting for Preacquisition Contingencies of Purchased Enterprises*.

B7. The need to resolve certain issues related to the accounting and reporting of noncontrolling interests arose in the second phase of the Board's business combinations project. In that phase, the Board reconsidered the accounting for business combinations in which the acquirer holds less than 100 percent of the ownership (equity) interests in the acquiree as of the acquisition date and the accounting for business combinations achieved in stages (step acquisitions).

B8. The Board decided that obtaining control of a business is a remeasurement event regardless of how control is obtained. Therefore, the Board decided that the business acquired (acquiree) should be recognized at fair value at the acquisition date in all business combinations, even those in which the acquirer holds less than 100 percent of the ownership interests in the acquiree at that date or those achieved in stages. Previously, the acquiree would not have been recognized at fair value at the acquisition date in either of those business combinations. (Refer to FASB Statement No. 141 (revised 2005), *Business Combinations*, for further information.)

B9. The Board's decision to record all business combinations at fair value, even those in which the acquirer holds less than 100 percent of the ownership interests in the acquiree as of the acquisition date or those achieved in stages, led the Board to reconsider the accounting and reporting of noncontrolling interests. Previously, acquisitions of noncontrolling interests after control of a business was obtained were accounted for by the purchase method. However, before the Board could reconsider the guidance for accounting for acquisitions of noncontrolling interests, the Board had to reach a conclusion about the classification of the noncontrolling interest in the consolidated statement of financial position because that classification affects the accounting for subsequent acquisitions of noncontrolling interests (that is, as equity transactions or transactions with gain or loss recognition). Therefore, the Board decided to comprehensively reconsider the accounting and reporting of noncontrolling interests as part of the second phase of the business combinations project.

## **Reporting Noncontrolling Interests in Subsidiaries**

### **Nature of Noncontrolling Interests and Reporting Noncontrolling Interests in the Consolidated Statement of Financial Position**

B10. Financial statements of a subsidiary do not distinguish between the equity interests of its controlling and noncontrolling shareholders. Both are owners of shares or interests in the subsidiary and have interests in the aggregate amounts of its reported earnings, retained earnings, and net assets. There is no debate whether noncontrolling shareholders have an equity interest in a subsidiary; the issue is how to report that interest in consolidated financial statements.

B11. The Board considered three possible ways to display the noncontrolling interest in a consolidated statement of financial position: as a liability, as equity, or as a separate “mezzanine” item between liabilities and equity. The Board reached the same conclusion that it had reached in its October 1995 Exposure Draft, *Consolidated Financial Statements: Policy and Procedures* (consolidations Exposure Draft) and its October 2000 Exposure Draft, *Accounting for Financial Instruments with Characteristics of Liabilities, Equity, or Both* (liabilities and equity Exposure Draft):<sup>11</sup> the noncontrolling interest should be reported in the consolidated statement of financial position within equity, separately from the parent shareholders’ equity. The basis for the Board’s conclusion is similar to that included in the consolidations Exposure Draft and the liabilities and equity Exposure Draft and is summarized in paragraphs B12–B14.

B12. The Board concluded that noncontrolling interests, as defined by this Statement, do not meet the definition of liabilities in paragraph 35 of FASB Concepts Statement No. 6, *Elements of Financial Statements*.<sup>12</sup> Not one of the entities involved—parent, subsidiary, or consolidated entity—is obligated to transfer assets or provide services to the shareholders that hold equity shares in the subsidiary. That conclusion is consistent with paragraph 254 of Concepts Statement 6, which states:

Minority [noncontrolling] interests in net assets of consolidated subsidiaries do not represent present obligations of the enterprise to pay cash or distribute other assets to minority stockholders. Rather, those stockholders have ownership or residual interests in components of a consolidated enterprise. The definitions in this Statement do not, of course, preclude showing minority interests separately from majority interests or preclude emphasizing the interests of majority stockholders for whom consolidated statements are primarily provided.

B13. The Board also considered and rejected the alternative of requiring that the noncontrolling interest be reported as a separate “mezzanine” item between liabilities and equity in the consolidated statement of financial position. That alternative suggests that a new element—noncontrolling interests in subsidiaries—be created specifically for consolidated financial statements. Concepts Statement 6 defines three elements of a statement of financial position: assets, liabilities, and equity (or net assets). The Board concluded that no compelling reasons exist to create a new element of financial statements to report the interests of shareholders that do not control the parent or its subsidiaries. The Board believes that appropriate labeling and disclosure of items and distinctions between items within the existing elements of financial statements will report financial information in consolidated financial statements that is representationally

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<sup>11</sup>Both of these Exposure Drafts addressed issues related to noncontrolling interests. Appendix C provides background information about why the decisions in each of these Exposure Drafts were not finalized.

<sup>12</sup>The Board notes that some financial instruments are commonly called noncontrolling interests but are classified as liabilities under U.S. GAAP, such as FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* (for example, mandatorily redeemable financial instruments of subsidiaries classified as liabilities under Statement 150 that are owned by noncontrolling shareholders). Those financial instruments are not considered noncontrolling interests for purposes of this Statement.

faithful, understandable, and relevant to owners of the parent as well as to creditors and other resource providers of the parent.

B14. The majority of respondents to the consolidations Exposure Draft and the liabilities and equity Exposure Draft asserted that noncontrolling interests are not equity interests in consolidated financial statements of the parent because noncontrolling interests have no interest in the equity of the parent. The Board concluded that that assertion is inconsistent with the view of consolidated financial statements as those of a single economic entity. That view supports classification as equity because holders of noncontrolling interests are owners of a residual interest in a component of the consolidated entity. This Statement affirms that view of consolidated financial statements. Some Board members also note that paragraph 1 of ARB 51 states that the “purpose of consolidated statements is to present, primarily for the benefit of the shareholders and creditors of the parent company, the results of operations and the financial position of a parent company and its subsidiaries essentially as if the group were a single company. . . .” In analyzing this stated purpose of consolidated financial statements, the Board concluded that the purpose would not be served by classifying equity instruments of consolidated subsidiaries as if they were liabilities, and that additional disclosures should be required to clarify (1) the attribution of consolidated income and consolidated comprehensive income to the controlling and noncontrolling interests and (2) the effects of transactions in the ownership interests of a subsidiary. Those additional disclosures are discussed in paragraphs B37–B46.

#### **Attributing Consolidated Net Income and Consolidated Comprehensive Income to the Controlling and Noncontrolling Interests**

B15. This Statement requires that net income or loss and each component of other comprehensive income be attributed to the controlling and noncontrolling interests. That attribution is based on relative ownership interests unless the controlling and noncontrolling interests have entered into a contractual arrangement that requires net income or loss and the components of other comprehensive income to be attributed differently between them. In that case, net income or loss and the components of other comprehensive income are attributed to the controlling and noncontrolling interests based on the contractual requirements of that arrangement.

B16. The Board’s decision prescribes the attribution of net income or loss and components of comprehensive income only to residual equity interests (controlling and noncontrolling interests). The Board considered how that decision would be applied in a variety of circumstances, such as profit-sharing and income-sharing arrangements. The Board concluded that if an entity has an arrangement with parties other than residual equity interests that provides those parties with a right to receive certain income or losses (for example, a profit-sharing arrangement with its employees), the income or losses due to those parties would be attributed at a level above net income or loss and that amount would be recorded as an expense or as income in the income statement. In the case of an income-sharing arrangement, the Board considered whether net income or loss and the components of other comprehensive income should be attributed to the controlling and noncontrolling interests based on relative ownership interests or based on the terms of a

contractual arrangement that requires a different attribution. If the controlling and noncontrolling interests entered into an arrangement that provides for a different method of attribution, the Board believes that the terms of that arrangement should determine the attribution and that attribution based on ownership interests would not be appropriate in that circumstance.

B17. In this Statement, the Board reconsidered whether losses of a partially owned subsidiary in excess of the noncontrolling interests' equity capital should be attributed to noncontrolling interests. ARB 51 required that:

In the unusual case in which losses applicable to the minority interest in a subsidiary exceed the minority interest in the equity capital of the subsidiary, such excess and any further losses applicable to the minority interest should be charged against the majority interest, as there is no obligation of the minority interest to make good such losses.  
[paragraph 15]

B18. The Board concluded that that requirement was based on the view that the noncontrolling interest lacks characteristics of equity. While it is true that noncontrolling interests have no further obligation to contribute assets to the subsidiary, the parent has no further obligation either. Noncontrolling interests participate proportionately in the risks and rewards of an investment in the subsidiary. If a noncontrolling interest holder enters into an arrangement that obligates itself to the subsidiary, the Board believes that that arrangement should be accounted for separately and that arrangement should not affect the way losses are attributed to the controlling and noncontrolling interests. Thus, the Board concluded that losses applicable to noncontrolling interests should be attributed to them, even if doing so would result in a deficit noncontrolling interest.

B19. The Board also considered how its decision for attributing net income or loss and the components of other comprehensive income should be applied to variable interest entities. FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, requires that the consolidation procedures in ARB 51 be followed after initial recognition. However, certain variable interest entities do not have any residual equity interests. Some constituents have raised concerns that in some cases, net losses attributed to the primary beneficiary of a variable interest entity under ARB 51 may be absorbed ultimately not by the primary beneficiary, but by noncontrolling variable interests that are not equity interests. As described in paragraphs B17 and B18, the Board reconsidered in this project the guidance in paragraph 15 of ARB 51. However, the Board's decision in this project regarding the attribution of net income or loss does not alleviate that concern raised by constituents. Therefore, the Board is researching whether to provide additional guidance for variable interest entities in a separate effort.

#### ***Attributing Goodwill Impairment Losses under Statement 142***

B20. The Board acknowledges that a decision reached in the project to revise Statement 141 could be viewed as inconsistent with the decision in this Statement about attributing income and loss to the controlling and noncontrolling interests. Statement 141(R) amends

Statement 142 to require that if an entity incurs a goodwill impairment loss in a reporting unit that includes one or more partially owned subsidiaries, that impairment loss should be allocated to the controlling and noncontrolling interests on a pro rata basis using the relative carrying values of goodwill assigned to them.

B21. On the date of the business combination, the noncontrolling interest in the subsidiary's net assets consists of its proportionate ownership interest in the subsidiary's assets and liabilities other than goodwill and the portion of goodwill, if any, allocated to it. Unlike all other assets and liabilities of the subsidiary, the portion of goodwill initially allocated to the noncontrolling interest would not be equal to the total recognized goodwill multiplied by the noncontrolling interest's proportionate ownership interest in the subsidiary if the acquirer paid a premium to acquire the controlling interest in the subsidiary. The Board concluded that if the acquirer pays a premium to acquire its controlling interest, then that premium should be allocated to the acquirer. Because the Board decided that the initial attribution of goodwill to the controlling and noncontrolling interests differs from the initial attribution of other assets and liabilities of the subsidiary, for consistency, goodwill impairment losses would be attributed differently also. The Board concluded that the most practical method of attributing impairment losses to the controlling and noncontrolling interests would be on a pro rata basis using the relative carrying values of goodwill assigned to them.

#### **Changes in Ownership Interests in a Subsidiary**

B22. This Statement considers the accounting for transactions in the equity interest of a subsidiary that increase or decrease a parent's ownership interest but do not change whether that subsidiary is controlled. For example, a parent can increase its ownership percentage in a subsidiary by (a) purchasing (or causing an affiliate to purchase) additional outstanding shares of the subsidiary owned by noncontrolling shareholders, (b) causing the subsidiary to reacquire some of its outstanding shares, or (c) causing the subsidiary to issue shares of the subsidiary to the parent. A parent can decrease its ownership percentage in a subsidiary (a) by selling (or causing an affiliate to sell) some of its holding of the subsidiary's shares or (b) by causing the subsidiary to issue shares to noncontrolling interests.

B23. The Board considered two approaches for accounting for changes in ownership interests in a subsidiary without a change in control. The first approach accounts for a subsidiary's issuances of its own shares to noncontrolling shareholders or sales of its shares by the parent as a transaction that results in a gain (or loss) if the proceeds exceed (or are less than) the carrying amount of the interest acquired by the noncontrolling interest. The second approach accounts for transactions with noncontrolling shareholders as transactions in the equity of the consolidated group, that is, as changes in equity that do not result in a gain or loss. Those approaches also were considered by the Board in the liabilities and equity Exposure Draft and the consolidations Exposure Draft.

B24. The majority of respondents to the consolidations Exposure Draft and the liabilities and equity Exposure Draft supported the first approach. Those respondents stated that the noncontrolling interest has no ownership interest in the parent, so transactions with

noncontrolling shareholders are like transactions with other third parties; therefore, recognition of gains (or losses) on transactions with the noncontrolling interest would be appropriate. This Statement acknowledges that an equity interest of a noncontrolling shareholder in a subsidiary is not an equity interest in the parent. However, the Board did not agree that that makes transactions with noncontrolling shareholders like transactions with nonowners.

B25. The Board concluded that the second approach is consistent with its decision that the noncontrolling interest in a subsidiary is part of the equity of a consolidated group. Therefore, changes in ownership interests in a subsidiary without a change in control are equity transactions that should not result in gain or loss recognition as long as the subsidiary remains consolidated. The basis for the Board's conclusion is the same as that included in both the consolidations Exposure Draft and the liabilities and equity Exposure Draft and is summarized in paragraph B26.<sup>13</sup>

B26. The Board believes that transactions in the shares of a subsidiary by any of the affiliates are transactions in the equity of the consolidated group. The shares of the subsidiary are neither an asset nor a liability of the group comprising a parent and its subsidiaries. Rather, those shares are part of the residual interest remaining after subtracting consolidated liabilities from consolidated assets. Therefore, no gains or losses should be recognized on those transactions. That conclusion generally is consistent with the accounting for treasury and other capital stock transactions.

B27. The Board considered whether the numerator of the earnings per share calculation should be adjusted for any increase or decrease in equity related to changes in a parent's ownership interest in a subsidiary. The Board decided that such an approach would be inconsistent with the Board's conclusion that both the controlling interest and the noncontrolling interest are part of the same shareholder group of the consolidated entity. Therefore, the Board concluded that amounts charged or credited to equity because of changes in ownership interests in a subsidiary without a change in control should not be treated as adjustments to the numerator of the earnings per share calculation. However, as discussed in paragraph B41, the Board concluded that some users of financial statements might be interested in how increases or decreases to equity related to changes in a parent's ownership interest in a subsidiary would affect earnings per share amounts. Therefore, the Board decided to require disclosure of that information in a separate schedule in notes to the consolidated financial statements.

B28. The Board's conclusion that changes in ownership interests without a change in control should be accounted for as capital transactions resolves an issue raised by the Issues Paper on accounting in consolidation for issuances of a subsidiary's stock and by

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<sup>13</sup>The liabilities and equity Exposure Draft addressed decreases in a parent's controlling ownership interest in a subsidiary because of an acquisition of subsidiary shares by an entity outside the consolidated group. That Exposure Draft did not address increases in a parent's controlling ownership interest in a subsidiary because that issue was being addressed in the second phase of the Board's business combination project. While the Board did not address the latter issue in the liabilities and equity Exposure Draft, the Board's basis for its conclusions on decreases in a parent's controlling ownership interest also applies to increases in a parent's controlling ownership interest.

the Securities and Exchange Commission (SEC) Staff Accounting Bulletin Topic 5H, *Accounting for Sales of Stock by a Subsidiary* (also called SAB 51). SAB Topic 5H, which was issued in March 1983, applies only to SEC registrants. SAB Topic 5H permits, but does not require, recognition of gains on issues by a subsidiary of its own shares in certain circumstances. It states:

Although the staff has previously insisted that such transactions be accounted for as capital transactions in the consolidated financial statements, it has recently reconsidered its views on this matter with respect to certain of these transactions where the sale of such shares by a subsidiary is not a part of a broader corporate reorganization contemplated or planned by the registrant. In situations where no other such capital transactions are contemplated, the staff has determined that it will accept accounting treatment for such transactions that is in accordance with the Advisory Conclusions in paragraph 30 of the June 30, 1980 [AICPA] Issues Paper. . . . The staff believes that this Issues Paper should provide appropriate interim guidance on this matter until the FASB addresses this issue as a part of its project on Accounting for the Reporting Entity, including Consolidations, the Equity Method, and Related Matters.

B29. Thus, the interim guidance in SAB Topic 5H permitted the recognition of gains (or losses) on issues by a subsidiary of its own shares until the FASB reconsidered the issue. The Board has considered and rejected that alternative practice. The recognition of gains (or losses) on issues by a subsidiary of its own shares is predicated on the view that noncontrolling interests in subsidiaries are liabilities, since gains (or losses) do not arise from transactions with owners acting in their capacity as owners. Transactions with owners acting in their capacity as owners generally are recognized directly in equity (additional paid-in capital). Resolving this issue and replacing the SEC's interim guidance simplifies the accounting literature because it eliminates the alternative accounting treatment and the need to make a judgment about whether issuances of subsidiary shares should result in gain or loss recognition.

## **Loss of Control of Subsidiaries**

### **Calculating the Gain or Loss When Control of a Subsidiary Is Lost**

B30. This Statement considers the accounting for arrangements in which the parent loses control of, and thus deconsolidates, a subsidiary. Loss of control of a subsidiary could result from a decrease in ownership interests, such as the sale of an ownership interest to third parties by the parent or by a subsidiary. A loss of control also can occur in the absence of a transaction, for example, on the expiration of an agreement that gave control to the parent.

B31. Similar to the Board's decision in Statement 141(R) that obtaining control of a business is a remeasurement event that should result in gain or loss recognition, the Board decided that losing control of a subsidiary is also a remeasurement event that should result in gain or loss recognition. Under U.S. GAAP, that gain or loss is equal to

the difference at the date of sale between the selling price and the carrying amount of the shares sold.

B32. The Board considered two approaches for measuring the gain or loss on the loss of control of a subsidiary if the parent retains an investment in the former subsidiary. The first approach would be to measure the gain or loss using the carrying amount in the consolidated financial statements of the investment retained. That approach is consistent with the decision reached by the Board in the consolidations Exposure Draft.<sup>14</sup> However, the Board decided that that approach is inconsistent with the view that losing control of a subsidiary is a significant economic event that changes the nature of the investment held in the subsidiary.

B33. Under the second approach, if control of a subsidiary is lost and an investment in the former subsidiary is retained, that retained investment would be remeasured to its fair value on the date control is lost and any gain or loss would be recognized in consolidated net income. The Board decided to adopt the second approach. That decision reflects the Board's view that a decrease in a parent's ownership interest in a subsidiary to the point that the parent no longer controls that subsidiary is a significant economic event. The parent-subsidiary relationship ceases to exist and an investor-investee relationship begins that differs significantly from the former parent-subsidiary relationship. The Board also believes that recognizing the retained investment at fair value is more representationally faithful and provides users of financial statements with better information about the value of the retained investment.

B34. As part of this project, the IASB concluded that the accounting guidance provided for the loss of control of a subsidiary should be extended to events or transactions in which an investor loses significant influence or joint control of an associate or joint venture. Thus, upon the loss of significant influence, any retained investment would be remeasured to fair value and a gain or loss would be recognized. The Board considered whether to address that same issue as part of this project. The Board decided that the accounting for investments that no longer qualify for equity method accounting under APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, is outside the scope of this project.

#### **Guidance for When Multiple Arrangements That Result in the Loss of Control of a Subsidiary Should Be Accounted for as a Single Arrangement**

B35. The Board considered whether its decision that a parent should recognize a gain or loss on the loss of control of a subsidiary could give rise to structuring opportunities. For example, whether an entity would be motivated to structure a transaction or arrangement into multiple steps to maximize gains or minimize losses if that entity was planning to dispose of its controlling interest in a subsidiary.

B36. The Board noted that the opportunity to conceal losses through such structuring should be reduced by the requirements of Statement 142 and FASB Statement No. 144,

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<sup>14</sup>This issue was not considered by the Board in the liabilities and equity Exposure Draft.

*Accounting for the Impairment or Disposal of Long-Lived Assets.* Paragraph 28(e) of Statement 142 requires that goodwill be tested for impairment if there is “a more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of.” Paragraph 8(f) of Statement 144 requires that a long-lived asset group be tested for recoverability if there is “a current expectation that, *more likely than not*, a long-lived asset (asset group) will be sold or otherwise disposed of significantly before the end of its previously estimated useful life” (footnote reference omitted). Therefore, any impairment loss should be recognized for the goodwill and long-lived assets of a subsidiary that will be sold or otherwise disposed of before control of the subsidiary is lost. The Board concluded that the principal risk is the minimizing of gains and that entities are unlikely to strive to minimize gains. However, the Board decided that the possibility of such structuring could be overcome by requiring entities to consider whether multiple arrangements should be accounted for as a single arrangement to ensure faithful representation. The Board believes that all of the terms and conditions of the arrangements and their effect in practice should be considered in determining whether multiple arrangements should be accounted for as a single arrangement. The Board has included guidance in paragraph 29 of this Statement to assist in identifying when multiple arrangements that result in the loss of control of a subsidiary should be treated as a single arrangement.

## **Disclosures**

B37. Consistent with the decision that the noncontrolling interest is part of the equity of the consolidated group, the Board believes that consolidated net income and consolidated comprehensive income should include amounts attributable to both the controlling and noncontrolling interests. The Board also believes that consolidated financial statements are more useful to parent company shareholders if those statements clearly identify and distinguish between controlling and noncontrolling interests and their shares of net income and comprehensive income. To achieve these objectives, the Board decided to require separate display of (a) consolidated net income attributable to both the controlling and noncontrolling interests on the face of the consolidated income statement and (b) consolidated comprehensive income attributable to both the controlling and noncontrolling interests on the face of the financial statement in which consolidated comprehensive income is presented.

B38. The Board’s conclusion that the noncontrolling interest is part of the equity of the consolidated group gives rise to the question of how to present the consolidated income statement. Previously, income attributable to the noncontrolling interest was deducted to arrive at consolidated net income in consolidated financial statements. That practice was based on a view that noncontrolling interests in subsidiaries lack characteristics of equity because they do not have an ownership interest in the subsidiary’s parent. The Board’s conclusion that both the controlling interest and the noncontrolling interest represent equity interests in the consolidated group led the Board to conclude that the noncontrolling interest is of the same nature, and should be accounted for in the same way, as the controlling interest. Consequently, the Board concluded that revenues, expenses, and gains and losses reported in the consolidated income statement should be

reported at consolidated amounts and, therefore, should include amounts attributable to both the controlling interest and the noncontrolling interest.

B39. Amounts reported in the consolidated income statement should include amounts attributable to both the controlling interest and the noncontrolling interest. However, the Board believes that users of financial statements will continue to be interested in amounts attributable to the controlling interest. Therefore, the Board decided to require disclosure of amounts attributable to the controlling interest for certain income statement subtotals and the components of other comprehensive income.

B40. The Board also concluded that users of financial statements would be interested in how transactions with noncontrolling interests would affect the equity attributable to the controlling interest. Therefore, the Board decided to require that an entity with one or more partially owned subsidiaries disclose a schedule that presents the effects of any transactions with the noncontrolling interest on the controlling interest's equity. The Board decided that this schedule should be disclosed in notes to the consolidated financial statements rather than presented as a separate statement because presenting it as a separate statement could lead to confusion about the actual earnings of the entity for the period.

B41. Finally, the Board concluded that users of financial statements would be interested in how increases or decreases to equity related to changes in a parent's ownership interest in a subsidiary would affect earnings per share amounts. The Board, therefore, decided to require an entity that presents earnings per share amounts to disclose an additional per-share measure in that separate schedule that includes in the numerator the effects of any equity transactions with the noncontrolling interest. For example, if an amount in excess of the carrying amount was paid for shares purchased from the noncontrolling interest, the premium paid, which is recorded in equity, is required to be reflected in the numerator of that additional per-share measure, as a transfer of equity from equity holders of the parent to equity holders of the noncontrolling interest.

B42. In August 2003, the Board met with 12 users of financial statements to discuss the Board's decisions on the accounting and reporting of noncontrolling interests in consolidated financial statements. The Board asked the users whether they believed the information provided by such an additional schedule that presents the effects of transactions with the noncontrolling interest on the controlling interest's equity would be useful. The users generally supported requiring entities to provide such a schedule.

B43. The Board noted that disclosure of the additional schedule in conjunction with the other presentation and disclosure requirements in this Statement would provide users with more complete information about the equity interests of a consolidated group. Although the Board has concluded that consolidated financial statements are those of a single economic entity, and believes that many users are interested in information pertaining to the economic entity as a whole, the Board also expects that some users will continue to be interested in information pertaining only to the parent's shareholders. The information in the additional schedule increases the amount of information provided.

B44. The IASB noted that International Financial Reporting Standards (IFRSs) require information about the effects of transactions with the noncontrolling interest on the controlling interest's equity to be provided in a statement of changes in equity or in notes to the financial statements. That is because IAS 1, *Presentation of Financial Statements*, requires an entity to present, either within the statement of changes in equity or in the notes, a reconciliation between the carrying amount of each class of equity at the beginning and the end of the period, with each change disclosed separately. Accordingly, the IASB concluded that requiring a separate schedule would not be necessary.<sup>15</sup>

B45. The IASB also considered whether to require disclosure of the additional per-share metric that includes in the numerator the effects of any transactions with noncontrolling interests. The IASB supported the basic principle in IAS 33, *Earnings per Share*, that effects of capital transactions within a group of common equity holders should not be treated as adjustments to the numerator of the earnings per share calculation. Therefore, the effects of any transactions with the noncontrolling interest (without a change of control) should not affect the calculation of any earnings per share amounts. The IASB observed that IAS 33 requires the numerator to be adjusted for preferred dividends and the effects of other equity transactions with preferred equity holders in order to determine the amount of earnings available for distribution to the common equity holders.

B46. However, the IASB decided that an entity should not be precluded from disclosing the additional per-share metric. The IASB concluded that if an entity discloses, in addition to basic and diluted earnings per share, amounts per share that include in the numerator the effects of any equity transactions with the noncontrolling interest, such amounts should be calculated using as the denominator the weighted-average number of common (ordinary) shares determined in accordance with IAS 33.

### **Effective Date**

B47. This Statement is effective for annual periods beginning on or after December 15, 2006. The Board believes that that effective date provides sufficient time for entities and their auditors to analyze, interpret, and prepare for implementation of the provisions of this Statement and Statement 141(R), which is required to be applied at the same time because of the interrelation of the issues in both Statements. However, the Board decided to encourage early application of this Statement, as long as the provisions of Statement 141(R) are applied at the same time. The Board saw no reason to delay the effective date for any significant length of time for entities that want to apply the provisions of both Statements before the effective date.

### **Transition**

B48. In order to improve comparability of financial information across entities, the Board decided to require retrospective application of the presentation and disclosure

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<sup>15</sup>U.S. GAAP does not require the presentation of a statement of changes in equity or a reconciliation of the changes in equity in the financial statements. However, the SEC requires its registrants to present a statement of changes in equity in their financial statements.

requirements of this Statement. The Board believes that the benefits of retrospective application for those requirements outweigh the costs. However, the Board decided that retrospective application of the following provisions would be impracticable:

- a. The requirements for accounting for increases in a parent's controlling ownership interest in a subsidiary (acquisitions of noncontrolling interests). Those requirements do not apply to increases that occurred before application of this Statement. If a parent's ownership interest in its subsidiary increases after application of this Statement, that event should be accounted for as an equity transaction and the values of the subsidiary's assets and liabilities in the consolidated financial statements should not be changed.
- b. The requirements for the accounting for the loss of control of one or more subsidiaries. Any gain or loss recognized for the loss of control of one or more subsidiaries before this Statement is applied should not be adjusted retrospectively. Also, the carrying amount of any retained investment in a former subsidiary for which control was lost before application of this Statement should not be adjusted retrospectively.

B49. The Board decided that retrospective application would be impracticable in those cases because the information needed to retrospectively adjust the amounts previously recorded may not exist or may no longer be obtainable. Also, the accounting for a retained investment in a former subsidiary and recalculating the gain or loss arising on loss of control of a former subsidiary would require the determination of fair values at a prior date. Making that determination raises the question whether the effect of hindsight should be included or excluded in determining the fair value and, if excluded, how the effect of hindsight can be separated from the other factors existing at the date for which the valuations are required.

B50. The Board concluded that the implementation difficulties and consequent costs associated with retrospective application in those circumstances, on balance, outweigh the benefit of improved comparability of financial information.

### **Amendments to Statement 128**

B51. This Statement amends Statement 128 to require that entities with one or more partially owned subsidiaries calculate earnings per share data excluding income attributable to noncontrolling interests. In its deliberations of issues related to noncontrolling interests, the Board considered how the classification of noncontrolling interests as equity should affect the computation of earnings per share amounts. The basis for the Board's conclusion is the same as that included in the liabilities and equity Exposure Draft and is summarized in paragraph B52.

B52. The Board concluded that the presentation of earnings per share information is for the benefit of the controlling interest shareholders. Thus, although amounts for both the controlling and noncontrolling interest are reported in consolidated net income, the Board decided the calculation of earnings per share amounts in consolidated financial statements that include subsidiaries that are partially owned should be based on amounts

attributable to the controlling interest. That practice is consistent with how entities reported earnings per share before the issuance of this Statement.

### **Benefits and Costs**

B53. The mission of the FASB is to establish and improve standards of financial accounting and reporting for the guidance and education of the public, including preparers, auditors, and users of financial information. In fulfilling that mission, the Board endeavors to determine that a proposed standard will fill a significant need and that the costs imposed to meet that standard, as compared with other alternatives, are justified in relation to the overall benefits of the resulting information. The Board's consideration of each issue in a project includes the subjective weighing of the incremental improvement in financial reporting against the incremental cost of implementing the identified alternatives. At the end of that process, the Board considers the accounting provisions in the aggregate and assesses the related perceived costs on a qualitative basis.

B54. The Board's assessment of the benefits and costs of the requirements in this Statement was based on discussions with preparers, auditors, and users of financial statements. The Board acknowledges that initial implementation of this Statement may result in costs to preparers, auditors, and users of financial information, which may not be borne evenly. However, the expected benefit of those costs is improved financial reporting resulting from consistency in the procedures used to account for and report noncontrolling interests, including consistency across international borders, and enhanced comparability of information across entities. Investors and creditors—both present and potential—and other users of financial information benefit from improvements in financial reporting, thereby facilitating the functioning of markets for capital and credit and the efficient allocation of resources in the economy. However, the value of the incremental improvements to financial reporting and many of the costs to achieve those improvements are subjective and cannot be quantified.

B55. Several procedures were conducted before the issuance of this Statement to aid the Board in its assessment of the expected costs associated with implementing the requirements of this Statement. Those procedures included meeting with resource group members and conducting field visits to discuss the operationality of the Statement and conducting roundtable meetings with users of financial statements to discuss whether the requirements of this Statement would provide more useful information. Additionally, the Board decided to preclude retrospective application of certain provisions of this Statement to reduce the costs of implementation.

B56. Based on the findings of the cost-benefit procedures, the Board concluded that this Statement would sufficiently improve financial reporting to justify the costs it imposes.

## Appendix C

### BACKGROUND INFORMATION

C1. Diversity in practice existed for the accounting and reporting of noncontrolling interests because of an absence of clear accounting guidance. Noncontrolling interests have been reported most commonly as “mezzanine” items between liabilities and equity, but also as liabilities or as equity. This Statement provides the accounting and reporting guidance that resolves those inconsistent practices and specifies that noncontrolling interests in subsidiaries are a component of equity of the consolidated group.

C2. The Board has deliberated issues related to noncontrolling interests in three separate projects. In each of those projects, the Board reached the same fundamental conclusion—shareholders, partners, or other equity holders in subsidiaries are owners of a residual interest in a component of the consolidated entity. Therefore, the noncontrolling interest in the equity of subsidiaries should be accounted for and reported as equity, separately from the parent shareholders’ equity. Paragraphs C3–C16 provide background information about the Board’s deliberations in each of the three projects.

#### Consolidations Project

C3. In January 1982, the Board added to its agenda a project on accounting for the reporting entity, including consolidation policy and procedures, the equity method, and related matters. The objective of that project was to cover all aspects of accounting for affiliations between entities and several other matters that raised similar or potentially related issues (consolidations project). The Board undertook the consolidations project in response to numerous questions raised by constituents, including the Accounting Standards Executive Committee of the AICPA, the staff of the Securities and Exchange Commission (SEC), and some preparers and users of financial statements. For the most part, those questions stemmed from three AICPA Issues Papers: *Reporting Finance Subsidiaries in Consolidated Financial Statements* (1978), *Accounting in Consolidation for Issuances of a Subsidiary’s Stock* (1980), and *Certain Issues That Affect Accounting for Minority Interest in Consolidated Financial Statements* (1981). Those Issues Papers raised significant questions about consolidation policy and procedures. The questions in those Issues Papers related to noncontrolling interests included:

- a. How should the noncontrolling interest be displayed in the consolidated statement of financial position and income statement?
- b. How should a subsidiary’s issuance or reacquisition of its own stock be accounted for in consolidation if that issuance or reacquisition changes the parent’s percentage of ownership of voting or residual interest in the subsidiary?
- c. How should intercompany receivables, payables, sales, purchases, profits, and losses be attributed to controlling and noncontrolling interests in the affiliates?
- d. How should the noncontrolling interest’s share of acquired assets and assumed liabilities be accounted for in consolidated statements at the date of acquisition of a subsidiary by a parent?

C4. In September 1991, the Board issued the FASB Discussion Memorandum, *Consolidation Policy and Procedures*. That Discussion Memorandum discussed policies and procedures for preparing consolidated financial statements, including the issues listed in paragraph C3 and other related noncontrolling interest issues. Approximately 100 comment letters were received in response to that Discussion Memorandum.

C5. As part of the Board's effort to address the questions raised in the AICPA Issues Papers, the Board issued an Exposure Draft, *Consolidated Financial Statements: Policy and Procedures*, in October 1995 (consolidations Exposure Draft). That Exposure Draft addressed policy and procedure issues related to the preparation of consolidated financial statements, including the noncontrolling interest issues raised by the AICPA Issues Papers and certain other related issues.

C6. In response to that Exposure Draft, the Board received approximately 160 comment letters on its conclusions related to consolidation policy and procedure and the accounting and reporting of noncontrolling interests. The majority of respondents were opposed to the requirements in the Exposure Draft. As part of its due process, the Board considered those comments and decided not to issue a final Statement on consolidation policy and procedures at that time.<sup>16</sup>

### **Financial Instruments Project**

C7. In 1986, the Board added a project to its agenda on financial instruments. The objective of that project was to address financial reporting issues that were arising, or were given a new sense of urgency, as a result of financial innovation and structuring. One part of that project related to the classification of financial instruments as either liabilities or equity (liabilities and equity project).

C8. In March 1992, the Board decided to temporarily suspend work on the liabilities and equity project to devote its resources to financial instrument issues that were deemed more urgent. In December 1996, the Board's Financial Instruments Task Force discussed the liabilities and equity project. The Board decided to reactivate the project based on that discussion.

C9. One of the objectives of the liabilities and equity project was to eliminate classification of "mezzanine" items between the liabilities section and the equity section of the statement of financial position. Consequently, the Board decided to address the issue of classification of noncontrolling interests and the following related issues:

- a. Display of the noncontrolling interest in the consolidated statement of financial position and in the consolidated income statement
- b. Display of the components of other comprehensive income if a noncontrolling interest exists

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<sup>16</sup> The FASB Exposure Draft, *Consolidated Financial Statements: Purpose and Policy*, was issued in February 1999. That Exposure Draft is a revision of the consolidations Exposure Draft. The 1999 Exposure Draft focuses on consolidation policy and does not address issues related to noncontrolling interests.

- c. Accounting for sales of a subsidiary's shares if those sales do not result in deconsolidation of the subsidiary
- d. Accounting for sales of a subsidiary's shares if those sales result in the deconsolidation of the subsidiary.

C10. In October 2000, the Board issued an Exposure Draft, *Accounting for Financial Instruments with Characteristics of Liabilities, Equity, or Both* (liabilities and equity Exposure Draft). The Board received approximately 65 comment letters on that Exposure Draft. The majority of respondents disagreed with the requirements in the liabilities and equity Exposure Draft related to the accounting and reporting of noncontrolling interests in consolidated subsidiaries.

C11. During May, June, and July 2001, Board members and staff met with seven different entities that volunteered to participate in field visits to discuss some of the issues raised in those comment letters. The field visit participants generally disagreed with the conclusions reached by the Board in relation to the accounting and reporting of noncontrolling interests and suggested that the Board consider those issues in the consolidations project or its business combinations project, rather than the liabilities and equity project.

C12. In October 2001, 18 constituents participated in a roundtable meeting that focused on several issues raised in comment letters on the liabilities and equity Exposure Draft. At that roundtable meeting, constituents discussed several aspects of that Exposure Draft, including accounting and reporting of noncontrolling interests in consolidated subsidiaries.

C13. In 2001 and 2002, the Board redeliberated the issues raised in the liabilities and equity Exposure Draft, comment letters, field visits, and the roundtable meeting. At those meetings, the Board affirmed certain of its conclusions in that Exposure Draft. At the end of 2002, the Board had not completed its redeliberations of several other issues, including accounting and reporting of noncontrolling interests. The Board decided to issue a limited-scope Statement to provide timely and necessary guidance for certain troublesome instruments for which the practice problems were clear, without addressing the remaining, unresolved issues. Therefore, in May 2003, the Board issued FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. That Statement does not address the accounting or reporting of noncontrolling interests in subsidiaries.

### **Business Combinations Project**

C14. In August 1996, the Board added to its agenda a project on accounting for business combinations. The objective of that project was to improve the transparency of accounting and reporting of business combinations by reconsidering the requirements of APB Opinions No. 16, *Business Combinations*, and No. 17, *Intangible Assets*, which were issued in 1970. In 1999, the Board decided to divide the project into several phases. The Board completed the first phase in June 2001, with the concurrent issuance of FASB Statements No. 141, *Business Combinations*, and No. 142, *Goodwill and Other*

*Intangible Assets.* The second phase commenced upon the issuance of Statements 141 and 142. In the second phase of the project, the Board considered the purchase method procedures that Statement 141 carried forward, without reconsideration, from Opinion 16 and FASB Statement No. 38, *Accounting for Preacquisition Contingencies of Purchased Enterprises*. Shortly after commencing the second phase, the FASB and the International Accounting Standards Board (IASB) agreed to conduct the second phase of the project as a joint project with the objective of seeking convergence of the applicable international financial reporting standards and U.S. GAAP.

C15. The need to resolve certain issues related to the accounting and reporting of noncontrolling interests again arose in the second phase of the Board's business combinations project (see paragraphs B4–B9). Originally, the Board had planned to complete redeliberations of the noncontrolling interest issues in the liabilities and equity project before the second phase of the business combinations was completed. However, during the second phase of the business combinations project, the Board realized that it would not be able to redeliberate and reach final decisions on issues related to noncontrolling interests in its liabilities and equity Exposure Draft before it issued a proposed Statement on business combinations. Because issuing guidance on the accounting and reporting of noncontrolling interests was necessary for the completion of the second phase of the business combinations project, the Board decided that the issues related to the accounting and reporting of noncontrolling interests should be comprehensively considered as part of the second phase of the business combinations project.

C16. The Board considered whether to reexpose its decisions on the accounting and reporting of noncontrolling interests or to issue those decisions in a final Statement because many of those decisions had been exposed twice before. The Board decided to reexpose its decisions related to noncontrolling interests as part of the business combinations project because (a) considerable time has passed since those issues were last exposed for comment, (b) certain decisions were not exposed previously, and (c) certain conclusions reached differ from the conclusions reached in either or both the consolidations Exposure Draft and the liabilities and equity Exposure Draft. For those reasons, the Board decided to provide constituents with an opportunity to comment on the proposed requirements before issuing a final Statement on the accounting and reporting of noncontrolling interests.

## Appendix D

### AMENDMENTS TO EXISTING PRONOUNCEMENTS

D1. This Statement replaces ARB No. 51, *Consolidated Financial Statements*, and supersedes FASB Statement No. 94, *Consolidation of All Majority-Owned Subsidiaries*.

D2. All instances of the term *minority interest* are replaced by the term *noncontrolling interest*.

D3. APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, is amended as follows: [Added text is underlined and deleted text is ~~struck out~~.]

a. Paragraph 4 and its related footnote 3, as amended by Statement 94:

Paragraph 6 of FASB Statement No. 1XX, *Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries*, Paragraph 1 of Accounting Research Bulletin No. 51 states that: “There is a presumption that consolidated financial statements are more meaningful than separate statements and that they are usually necessary for a fair presentation when one of the companies in the group directly or indirectly has a controlling financial interest in the other companies.” Consolidated financial statements combine the assets, liabilities, revenues and expenses of subsidiaries with the corresponding items of the parent company. Intercompany items are eliminated to avoid double counting and prematurely recognizing income. Consolidated financial statements report the financial position and results of operations of the parent company and its subsidiaries as an economic entity. In practice, consolidation has been limited to subsidiary companies, although under certain circumstances valid reasons may exist for omitting a subsidiary from consolidation.<sup>3</sup>

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<sup>3</sup>See paragraphs 7 and 8 of Statement 1XX~~See paragraphs 2 and 3 of ARB No. 51, as amended by FASB Statement No. 94, *Consolidation of All Majority-Owned Subsidiaries*.~~

- b. Paragraph 14 and its related footnote 4, as amended by Statement 94:

~~Statement 1XX, paragraphs 7 and 8, ARB No. 51, paragraphs 2 and 3 (as amended by FASB Statement No. 94),~~ requires consolidation of all majority-owned subsidiaries except the few that meet conditions described in the last sentence of paragraph 7~~2~~. The equity method is not a valid substitute for consolidation. Moreover, since ~~ARB No. 51 as amended~~ Statement 1XX requires the general-purpose financial statements of companies having one or more majority-owned subsidiaries to be consolidated statements, parent-company statements are not a valid substitute for consolidated financial statements.<sup>4</sup>

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<sup>4</sup>~~Paragraphs 7 and 8 of Statement 1XX~~ Paragraphs 2 and 3 of ARB No. 51 (as amended by FASB Statement No. 94) describe the condition under which a majority-owned subsidiary shall not be consolidated. The limitations in paragraphs 7 and 8 of Statement 1XX ~~paragraphs 2 and 3 of ARB No. 51 (as amended by FASB Statement No. 94)~~ should also should be applied as limitations to the use of the equity method.

- D4. APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, is amended as follows:

- a. Footnote 7 to paragraph 28:

~~Paragraph 12 of ARB No. 51, *Consolidated Financial Statements*, includes additional disclosures that are preferred if a parent company disposes of a subsidiary during the year.~~

- D5. AICPA Accounting Interpretation 1, “Intercompany Profit Eliminations under Equity Method,” of Opinion 18, is amended as follows:

*Question*—In applying the equity method of accounting, intercompany profits or losses on assets still remaining with an investor or investee should be eliminated, giving effect to any income taxes on the intercompany transactions. (See paragraph 19-a of APB Opinion No. 18 and paragraphs 10 and 15 of FASB Statement No. 1XX, *Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries* ~~paragraphs 6 and 17 of ARB No. 51~~.) Should all of the intercompany profit or loss be eliminated or only that portion related to the investor’s common stock interest in the investee?

*Interpretation*—Paragraph 19 of APB Opinion No. 18 normally requires an investor’s net income and stockholder’s equity to be the same from application of the equity method as would result from consolidation. Because the equity method is a “one-line” consolidation, however, the details reported in the investor’s financial statements under the equity method will not be the same as would be reported in consolidated financial statements (see paragraph 19-c). All intercompany transactions are eliminated in consolidation, but under the equity

method intercompany profits or losses are normally eliminated only on assets still remaining on the books of an investor or an investee.

~~Paragraph 14 of Statement 1XX~~~~Paragraph 14 of ARB No. 51~~ provides for complete elimination of intercompany profits or losses in consolidation. It also states that the elimination of intercompany profit or loss may be allocated proportionately between the majority and noncontrolling (minority) interests. Whether all or a proportionate part of the intercompany profit or loss should be eliminated under the equity method depends largely upon the relationship between the investor and investee. [NOTE: The remainder of the Interpretation is unchanged.]

D6. FASB Statement No. 5, *Accounting for Contingencies*, is amended as follows:

a. Footnote 7 to paragraph 27:

The effects of transactions between a parent or other investor and a subsidiary or investee insurance company shall be eliminated from an enterprise's financial statements (see paragraph 10 of FASB Statement No. 1XX, Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries, ~~paragraph 6 of ARB No. 51, "Consolidated Financial Statements,"~~ and paragraph 19(a) of *APB Opinion No. 18*, "The Equity Method of Accounting for Investments in Common Stock").

D7. FASB Statement No. 13, *Accounting for Leases*, is amended as follows:

a. Paragraph 30:

In consolidated financial statements or in financial statements for which an interest in an investee is accounted for on the equity basis, any profit or loss on a leasing transaction with the related party shall be accounted for in accordance with the principles set forth in FASB Statement No. 1XX, Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries, ~~ARB No. 51, "Consolidated Financial Statements,"~~ or *APB Opinion No. 18*, whichever is applicable.

D8. FASB Statement No. 52, *Foreign Currency Translation*, is amended as follows:

a. Paragraph 14:

Upon sale or upon complete or substantially complete liquidation of an investment in a foreign entity that results in a loss of control of that entity, the amount attributable to that entity and accumulated in the translation adjustment component of equity shall be removed from the separate component of equity and shall be reported as part of the gain or loss on sale or liquidation of the investment for the period during which the sale or liquidation occurs. If an entity sells part of its ownership interest in, but does not lose control of, a foreign entity, that

transaction should be accounted for as an equity transaction in accordance with paragraph 23 of FASB Statement No. 1XX, *Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries*. In accordance with that Statement, the translation adjustment component of equity should be reallocated to the controlling and noncontrolling interests in the foreign entity after the transaction.

D9. FASB Statement No. 58, *Capitalization of Interest Cost in Financial Statements That Include Investments Accounted for by the Equity Method*, is amended as follows:

a. Paragraph 8:

~~Paragraph 10 of ARB No. 51, *Consolidated Financial Statements*, requires accounting for a subsidiary on a step by step basis if control is obtained through purchase of two or more blocks of stock. Paragraph 19(m) of Opinion 18 requires retroactive adjustment for an investee that was previously accounted for on other than the equity method when that investee becomes qualified for use of the equity method. Paragraph 34 of APB Opinion No. 20, *Accounting Changes*, requires restatement of prior financial statements for changes in reporting entities. The following footnote is added to each of those paragraphs:~~

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\*The amount of interest cost capitalized through application of FASB Statement No. 58, *Capitalization of Interest Cost in Financial Statements That Include Investments Accounted for by the Equity Method*, shall not be changed when restating financial statements of prior periods.

D10. FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises*, is amended as follows:

a. Paragraph 42:

If limitations exist on the amount of net income from **participating insurance** contracts of life insurance enterprises that may be distributed to stockholders, the policyholders' share of net income on those contracts that cannot be distributed to stockholders shall be excluded from stockholders' equity by a charge to operations and a credit to a liability relating to participating policyholders' funds ~~in a manner similar to the accounting for net income applicable to minority interests~~. Dividends declared or paid to participating policyholders shall reduce that liability; dividends declared or paid in excess of the liability shall be charged to operations. Income-based dividend provisions shall be based on net income that includes adjustments between general-purpose and statutory financial statements that will reverse and enter into future calculations of the dividend provision.

D11. FASB Statement No. 65, *Accounting for Certain Mortgage Banking Activities*, is amended as follows:

- a. Footnote 5 to the heading preceding paragraph 12:

This section on “Transactions with an Affiliated Enterprise” applies to only the separate financial statements of a mortgage banking enterprise. The provisions of FASB Statement No. 57, *Related Party Disclosures*, also apply to the separate financial statements of a mortgage banking enterprise. The provisions of FASB Statement No. 1XX, *Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries*, ~~ARB No. 51, *Consolidated Financial Statements*~~, and APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, apply when a mortgage banking enterprise is either consolidated or accounted for by the equity method.

D12. FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*, is amended as follows:

- a. Footnote 11 to paragraph 16:

FASB Statement No. 1XX, *Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries*, ~~ARB No. 51, *Consolidated Financial Statements*~~, requires that profit on sales of assets remaining in the consolidated group be eliminated in consolidated financial statements. APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, effectively extends that requirement to affiliated entities reported on the equity method.

D13. FASB Statement No. 89, *Financial Reporting and Changing Prices*, is amended as follows:

- a. Paragraph 96:

In the table in the example, which provides guidance on the interpretation of paragraphs 40–43 of that Statement for the classification of certain asset and liability items as monetary or nonmonetary, the line item *Minority interests in consolidated subsidiaries (paragraph 107)* is moved from the “Liabilities” section to the “Equity” section.

D14. FASB Statement No. 95, *Statement of Cash Flows*, as amended by FASB Statements No. 102, *Statement of Cash Flows—Exemption of Certain Enterprises and Classification of Cash Flows from Certain Securities Acquired for Resale*, and No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections*, is amended as follows:

a. Paragraph 15:

Investing activities include obtaining or losing control of subsidiaries, making and collecting loans and acquiring and disposing of debt or equity instruments and property, plant, and equipment and other productive assets, that is, assets held for or used in the production of goods or services by the enterprise (other than materials that are part of the enterprise's inventory). Investing activities exclude acquiring and disposing of certain loans or other debt or equity instruments that are acquired specifically for resale, as discussed in Statement 102, and securities that are classified as trading securities as discussed in FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*.

b. Paragraph 18, as amended by FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*:

Financing activities include obtaining resources from owners and providing them with a return on, and a return of, their investment; receiving restricted resources that by donor stipulation must be used for long-term purposes; obtaining or using resources to increase or decrease a parent's controlling ownership interest in its subsidiary; borrowing money and repaying amounts borrowed, or otherwise settling the obligation; and obtaining and paying for other resources obtained from creditors on long-term credit.

D15. FASB Statement No. 128, *Earnings per Share*, is amended as follows:

a. Paragraph 8:

The objective of basic EPS is to measure the performance of an entity over the reporting period. Basic EPS shall be computed by dividing **income available to common stockholders of the parent** (the numerator) by the **weighted-average number of common shares of the parent outstanding** (the denominator) during the period. Shares issued during the period and shares reacquired during the period shall be weighted for the portion of the period that they were outstanding.

b. Paragraph 9 and its related footnote 4:

Income available to common stockholders of the parent shall be computed by deducting both the dividends declared in the period on **preferred stock** (whether or not paid) and the dividends accumulated for the period on cumulative preferred stock (whether or not earned)<sup>3</sup> from income from continuing operations attributable to the parent (if that amount appears in the income statement)<sup>4</sup> and also from net income attributable to the parent. If there is a loss from continuing operations or a net loss, the amount of the loss shall be increased by those preferred dividends. If an entity has one or more partially owned subsidiaries, for purposes of applying this Statement, income from continuing operations attributable to the parent and net income attributable to the parent excludes the portion attributable to the noncontrolling interest in subsidiaries.

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<sup>3</sup>Preferred dividends that are cumulative only if earned shall be deducted only to the extent that they are earned.

<sup>4</sup>An entity that does not report a discontinued operation but reports an extraordinary item or the cumulative effect of an accounting change in the period shall use that line item (for example, *income before extraordinary items attributable to the parent* or *income before accounting change attributable to the parent*) whenever the line item *income from continuing operations attributable to the parent* is referred to in this Statement.

c. Paragraph 15:

An entity that reports a discontinued operation, an extraordinary item, or the cumulative effect of an accounting change in a period shall use income from continuing operations attributable to the parent<sup>7</sup> (adjusted for preferred dividends as described in paragraph 9) as the “control number” in determining whether those potential common shares are dilutive or antidilutive. That is, the same number of potential common shares used in computing the diluted per-share amount for income from continuing operations attributable to the parent shall be used in computing all other reported diluted per-share amounts even if those amounts will be antidilutive to their respective basic per-share amounts.<sup>8</sup> (The control number excludes income from continuing operations attributable to the noncontrolling interest in subsidiaries.)

d. Paragraph 16:

Including potential common shares in the denominator of a diluted per-share computation for continuing operations always will result in an antidilutive per-share amount when an entity has a *loss* from continuing operations attributable to the parent or a *loss* from continuing operations available to common stockholders of the parent (that is, after any preferred dividend deductions). Although including those potential common shares in the other diluted per-share computations may be dilutive to their comparable basic per-share amounts, no potential common shares shall be included in the computation of any diluted per-share amount when a loss from continuing operations attributable to the parent exists, even if the entity reports net income.

e. Paragraph 36:

Entities with simple capital structures, that is, those with only common stock outstanding, shall present basic per-share amounts for income from continuing operations attributable to the parent<sup>20</sup> and for net income attributable to the parent on the face of the income statement. All other entities shall present basic and diluted per-share amounts for income from continuing operations attributable to the parent and for net income attributable to the parent on the face of the income statement with equal prominence.

f. Paragraph 37:

An entity that reports a discontinued operation, an extraordinary item, or the cumulative effect of an accounting change in a period shall present basic and diluted per-share amounts for those line items either on the face of the income statement or in the notes to the financial statements. Per-share amounts not required to be presented by this Statement that an entity chooses to disclose shall be computed in accordance with this Statement and disclosed only in the notes to the financial statements; it shall be noted whether the per-share amounts are pretax or net of tax.<sup>21</sup> (If an entity has one or more partially owned subsidiaries, the numerators in the basic and diluted per-share computations exclude the amounts attributable to the noncontrolling interest in subsidiaries.)

g. Paragraph 40:

For each period for which an income statement is presented, an entity shall disclose the following:

- a. A reconciliation of the numerators and the denominators of the basic and diluted per-share computations for income from continuing operations.<sup>22</sup> The reconciliation shall include the individual income and share amount effects of all securities that affect earnings per share.<sup>23</sup> Illustration 2 in Appendix C provides an example of that disclosure. (If an entity has one or more partially owned subsidiaries, the numerators exclude the amounts attributable to the noncontrolling interest.)
- b. The effect that has been given to preferred dividends in arriving at income available to common stockholders in computing basic EPS.
- c. Securities (including those issuable pursuant to contingent stock agreements) that could potentially dilute basic EPS in the future that were not included in the computation of diluted EPS because to do so would have been antidilutive for the period(s) presented.

h. Paragraph 58:

Restated EPS data shall be computed as if the restated income or loss had been reported originally in the prior period or periods. Thus, it is possible that common stock assumed to be issued upon exercise, conversion, or issuance of potential common shares in accordance with the provisions of this Statement may not be included in the computation of restated EPS amounts. That is, retroactive restatement of income from continuing operations attributable to the parent could cause potential common shares originally determined to be dilutive to become antidilutive pursuant to the control number provision in paragraph 15. The reverse also is true. Retroactive restatement also may cause the numerator of the EPS computation to change by an amount that differs from the amount of the retroactive adjustment.

i. Paragraph 61(a):

Income from continuing operations (or net income) attributable to the parent shall be reduced by the amount of dividends declared in the current period for each class of stock and by the contractual amount of dividends (or interest on participating income bonds) that must be paid for the current period (for example, unpaid cumulative dividends).<sup>25</sup>

j. Footnote 26 to paragraph 62:

~~Refer to paragraphs 140 and 141.~~

k. Paragraph 156:

The following example illustrates the EPS computations for a subsidiary's securities that enable their holders to obtain the subsidiary's common stock based on the provisions in paragraph 62. ~~This example is based on current practice. Based on the provisions in the consolidations Exposure Draft, the presentation of earnings per share would differ from that illustrated in this example for an entity that includes subsidiaries that are not wholly owned.~~ The facts assumed are as follows: *[NOTE: The remainder of the paragraph is unchanged.]*

l. Paragraph 171 (glossary):

**Basic earnings per share (basic EPS)**

The amount of earnings attributable to the parent for the period available to each share of common stock of the parent outstanding during the reporting period.

**Diluted earnings per share (diluted EPS)**

The amount of earnings attributable to the parent for the period available to each share of common stock of the parent outstanding during the reporting period and to each share that would have been outstanding assuming the issuance of common shares of the parent for all dilutive potential common shares outstanding during the reporting period.

**Earnings per share (EPS)**

The amount of earnings attributable to the parent that is attributable to each share of common stock of the parent. For convenience, the term is used in this Statement to refer to either earnings or loss per share.

**Income available to common stockholders of the parent**

Income (or loss) from continuing operations or net income (or net loss) attributable to the parent adjusted for preferred stock dividends. Amounts attributable to the parent exclude the portion attributable to the noncontrolling interests in subsidiaries.

### **Weighted-average number of common shares of the parent outstanding**

The number of shares of the parent determined by relating (a) the portion of time within a reporting period that common shares of the parent have been outstanding to (b) the total time in that period. In computing diluted EPS, equivalent common shares of the parent are considered for all dilutive potential common shares.

D16. FASB Statement No. 130, *Reporting Comprehensive Income*, is amended as follows:

a. Paragraph 14:

All components of comprehensive income shall be reported in the financial statements in the period in which they are recognized. A total amount for comprehensive income shall be displayed in the financial statement where the components of other comprehensive income are reported. In accordance with paragraph 30(a) of FASB Statement No. 1XX, *Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries*, if an entity has an outstanding noncontrolling interest (minority interest), amounts for both comprehensive income attributable to the controlling interest and comprehensive income attributable to the noncontrolling interests are reported on the face of the financial statement in which comprehensive income is presented in addition to presenting consolidated comprehensive income.

b. Paragraph 22:

An enterprise shall display comprehensive income and its components in a financial statement that is displayed with the same prominence as other financial statements that constitute a full set of financial statements. This Statement does not require a specific format for that financial statement but requires that an enterprise display net income as a component of comprehensive income in that financial statement. Appendix B provides illustrations of the components of other comprehensive income and total comprehensive income being reported below the total for net income in a statement that reports results of operations, in a separate statement of comprehensive income that begins with net income, and in a statement of changes in equity. In accordance with paragraph 30(b)(5) of Statement 1XX, if an entity has an outstanding noncontrolling interest, the components of other comprehensive income attributable to the controlling interest are required to be disclosed.

c. Paragraph 129:

This appendix provides illustrations of reporting formats for comprehensive income, required disclosures, and a corresponding statement of financial position. The illustrations are intended as examples only; they illustrate some

recommended formats. Other formats or levels of detail may be appropriate for certain circumstances. An enterprise is encouraged to provide information in ways that are most understandable to investors, creditors, and other external users of financial statements. For simplicity, the illustrations provide information only for a single period; however, the Board realizes that most enterprises are required to provide comparative financial statements.<sup>13a</sup>

<sup>13a</sup>Appendix A of Statement 1XX illustrates one method for reporting comprehensive income if the entity has one or more partially owned subsidiaries.

D17. FASB Statement No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*, is amended as follows:

a. Footnote 6 to paragraph 15:

Recognizing an interest in the net assets of the recipient organization and adjusting that interest for a share of the change in net assets of the recipient organization is similar to the equity method, which is described in APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*. If the beneficiary and the recipient organization are included in consolidated financial statements, the beneficiary's interest in the net assets of the recipient organization would be eliminated in accordance with paragraph 10 of FASB Statement No. 1XX, *Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries*.~~paragraph 6 of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*.~~

D18. FASB Statement No. 142, *Goodwill and Other Intangible Assets*, is amended as follows:

a. Paragraph 6 and its related footnote 5:

This Statement applies to goodwill and other intangible assets that were recognized on the acquisition of some or all of the noncontrolling interests in a subsidiary before December 15, 2005 (the effective date of FASB Statement No. 141 (revised 2005), *Business Combinations*,—whether acquired by the parent, the subsidiary itself, or another affiliate.<sup>5</sup> This Statement, including its transition provisions, applies to amounts recognized as goodwill in applying the equity method of accounting and to the excess reorganization value recognized by entities that adopt fresh-start reporting in accordance with AICPA Statement of Position 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code*. That excess reorganization value shall be reported as goodwill and accounted for in the same manner as goodwill.

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<sup>5</sup>FASB Statement No. 1XX, *Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries*, which became effective on December 15, 2005, requires acquisitions of noncontrolling interests to be accounted for as equity transactions. Thus, no goodwill or other intangible assets would be recognized on acquisitions of noncontrolling interests after the effective date of that Statement.~~Statement 141 requires that the~~

~~acquisition of some or all of the noncontrolling interests in a subsidiary be accounted for using the purchase method.~~

D19. FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, is amended as follows:

a. Paragraph 2:

This Statement supersedes the accounting and reporting provisions of APB Opinion No. 30, *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, for segments of a business to be disposed of. However, this Statement retains the requirement of Opinion 30 to report discontinued operations separately from continuing operations and extends that reporting to a component of an entity that either has been disposed of (by sale, by abandonment, or in a distribution to owners) or is classified as held for sale. This Statement also ~~amends~~amended ARB No. 51, *Consolidated Financial Statements*, to eliminate the exception to consolidation for a temporarily controlled subsidiary. ~~ARB 51 was replaced by FASB Statement No. 1XX, *Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries*. Consistent with ARB 51, that Statement does not provide an exception to consolidation for a temporarily controlled subsidiary.~~

D20. FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, is amended as follows:

a. The title:

FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities* (an interpretation of ~~Statement No. 1XX~~ARB No. 51)

b. All references to *ARB 51* are replaced by *Statement 1XX*.

c. Paragraph 1:

This Interpretation, which replaces FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*, clarifies the application of ~~FASB Statement No. 1XX, *Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries*, *Accounting Research Bulletin No. 51, Consolidated Financial Statements*~~, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. ~~Paragraph 6 of Statement 1XX~~Paragraph 1 of ARB 51 states that consolidated financial statements are “usually necessary for a fair presentation when one of the companies in the group directly or indirectly has a controlling financial interest in the other companies.” ~~Paragraph 7~~Paragraph 2

states that “the usual condition for a controlling financial interest is ownership of a majority voting interest. . . .” However, application of the majority voting interest requirement in Statement 1XXARB-51 to certain types of entities may not identify the party with a controlling financial interest because the controlling financial interest may be achieved through arrangements that do not involve voting interests.

d. Paragraph 22:

The principles of consolidated financial statements in Statement 1XXARB-51 apply to primary beneficiaries’ accounting for consolidated variable interest entities. After the initial measurement, the assets, liabilities, and noncontrolling interests of a consolidated variable interest entity shall be accounted for in consolidated financial statements as if the entity were consolidated based on voting interests. Any specialized accounting requirements applicable to the type of business in which the variable interest entity operates shall be applied as they would be applied to a consolidated subsidiary. The consolidated enterprise shall follow the requirements for elimination of intercompany balances and transactions and other matters described in paragraphs 10–15 of Statement 1XXparagraphs 6–15 of ARB-51 and existing practices for consolidated subsidiaries. Fees or other sources of income or expense between a primary beneficiary and a consolidated variable interest entity shall be eliminated against the related expense or income of the variable interest entity. The resulting effect of that elimination on the net income or expense of the variable interest entity shall be attributed to the primary beneficiary (and not to noncontrolling interests) in the consolidated financial statements.

#### **AMENDMENTS MADE BY STATEMENT 94 CARRIED FORWARD IN THIS STATEMENT**

D21. Paragraphs 8 and 9 of ARB 43, Chapter 12, “Foreign Operations and Foreign Exchange,” which permitted an entity to exclude foreign subsidiaries from its consolidated financial statements, are deleted.

D22. Opinion 18 is amended to eliminate its requirement to use the equity method to account in consolidated financial statements for unconsolidated majority-owned subsidiaries and to eliminate its provisions applying to *parent-company financial statements prepared for issuance to stockholders as the financial statements of the primary reporting entity*, which are precluded by this Statement.<sup>17</sup> The paragraphs primarily affected are 1, 16, and 17, and the footnotes to them; changes in other paragraphs primarily remove *subsidiaries* or *unconsolidated subsidiaries* from

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<sup>17</sup>Opinion 18 was silent about parent-company financial statements prepared for purposes other than issuance as the general-purpose financial statements of the primary reporting entity. This Statement also does not consider that subject.

expressions such as *subsidiaries, joint ventures, and other investees which qualify for the equity method* or remove other words or sentences that no longer apply.

a. Paragraph 1 and its related footnote 1:

The Accounting Principles Board expresses in this Opinion its views on the equity method of accounting for investments in common stock. This Opinion extends the applicability of the equity method of accounting (paragraph 6b) to investments in common stock of corporate joint ventures and certain other investments in common stock.~~This Opinion clarifies the applicability of the equity method of accounting (paragraph 6b) to investments in common stock of subsidiaries and extends the applicability of the equity method of accounting to investments in common stock of corporate joint ventures and certain other investments in common stock. The Opinion also applies to investments reported in parent-company financial statements when such statements are prepared for issuance to stockholders as the financial statements of the primary reporting entity.<sup>4</sup> This Opinion supersedes paragraphs 2, 3 and 4 of APB Opinion No. 10 and amends paragraphs 19, 20 and 21 of Accounting Research Bulletin No. 51 to the extent that they relate to the equity method of accounting.<sup>2</sup>~~

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<sup>4</sup>~~Accounting research studies on the broader subjects of accounting for intercorporate investments and foreign operations are now in process and will encompass the matters on parent company financial statements and on consolidated financial statements covered in ARB No. 51 and in ARB No. 43, Chapter 12, as amended.~~

<sup>2</sup>This Opinion amends APB Statement No. 4, *Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises*, to the extent that it relates to the equity method of accounting.

b. Paragraph 16:

The Board concludes that the equity method best enables investors in corporate joint ventures to reflect the underlying nature of their investment in those ventures. Therefore, investors should account for investments in common stock of corporate joint ventures by the equity method in consolidated financial statements.~~Therefore, investors should account for investments in common stock of corporate joint ventures by the equity method, both in consolidated financial statements and in parent company financial statements prepared for issuance to stockholders as the financial statements of the primary reporting entity.~~

c. Paragraph 17:

The Board concludes that the equity method of accounting for an investment in common stock should also be followed by an investor whose investment in voting stock gives it the ability to exercise significant influence over operating and financial policies of an investee even though the investor holds 50% or less of the voting stock. Ability to exercise that influence may be indicated in several ways, such as representation on the board of directors, participation in policy making

processes, material intercompany transactions, interchange of managerial personnel, or technological dependency. Another important consideration is the extent of ownership by an investor in relation to the concentration of other shareholdings, but substantial or majority ownership of the voting stock of an investee by another investor does not necessarily preclude the ability to exercise significant influence by the investor. The Board recognizes that determining the ability of an investor to exercise such influence is not always clear and applying judgment is necessary to assess the status of each investment. In order to achieve a reasonable degree of uniformity in application, the Board concludes that an investment (direct or indirect) of 20% or more of the voting stock of an investee should lead to a presumption that in the absence of evidence to the contrary an investor has the ability to exercise significant influence over an investee. Conversely, an investment of less than 20% of the voting stock of an investee should lead to a presumption that an investor does not have the ability to exercise significant influence unless such ability can be demonstrated.<sup>7</sup> ~~When the equity method is appropriate, it should be applied in consolidated financial statements and in parent company financial statements prepared for issuance to stockholders as the financial statements of the primary reporting entity.~~

d. Paragraphs 19 and 19(a):

*Applying the equity method.* ~~The difference between consolidation and the equity method lies in the details reported in the financial statements. Thus, an investor's net income for the period and its stockholders' equity at the end of the period are the same whether an investment in a subsidiary is accounted for under the equity method or the subsidiary is consolidated (except as indicated in paragraph 19i). The procedures set forth below should be followed by an investor in applying the equity method of accounting to investments in common stock of unconsolidated subsidiaries, corporate joint ventures, and other investees which qualify for the equity method:~~

- a. Intercompany profits and losses should be eliminated until realized by the investor or investee as if a ~~subsidiary, corporate joint venture or investee company~~ were consolidated.

e. Paragraph 20(c):

~~When investments in unconsolidated subsidiaries are, in the aggregate, material in relation to financial position or results of operations, summarized information as to assets, liabilities, and results of operations should be presented in the notes or separate statements should be presented for such subsidiaries, either individually or in groups, as appropriate.~~

f. Paragraph 20(d):

When investments in common stock of corporate joint ventures or other investments of ~~50% or less~~ accounted for under the equity method are, in the

aggregate, material in relation to the financial position or results of operations of an investor, it may be necessary for summarized information as to assets, liabilities, and results of operations of the investees to be presented in the notes or in separate statements, either individually or in groups, as appropriate.

## Appendix E

### IMPACT ON RELATED LITERATURE

E1. This appendix addresses the impact of this Statement on authoritative accounting literature included in categories (b), (c), and (d) in the GAAP hierarchy discussed in AICPA Statement on Auditing Standards No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. This appendix also addresses the relationship between this Statement and related Securities and Exchange Commission (SEC) literature. Appendix C, “Amendments to Existing Pronouncements,” addresses any authoritative literature in category (a) of the GAAP hierarchy that will be amended or superseded by this Statement.

### EITF Issues

E2. The following table lists Emerging Issues Task Force (EITF) Issues and Topics relating to noncontrolling interests and indicates (a) the status of that literature after issuance of this Statement and (b) the impact of this Statement on that literature (if any) or the reasons that the literature is beyond the scope of this Statement. (Note: The Status section of the *EITF Abstracts* will be updated accordingly upon issuance of this Statement.)

<b>Status Legend</b>	
<b>Nullified— Unnecessary</b>	Guidance provided by consensus is deemed unnecessary upon adoption of this Statement.
<b>Not Applicable (N/A)</b>	Guidance is outside the scope of this Statement.

<b>EITF Issue No.</b>	<b>Title</b>	<b>Status</b>	<b>Effect of Statement on Consensus</b>	<b>Addition to Abstracts</b>
84-23	Leveraged Buyout Holding Company Debt	N/A (Status Update)	The Status section refers to Statement 94 but states that that Statement does not address this Issue.	Statement 1XX was issued XX 200X. It does not affect the guidance in this Issue; however, Statement 1XX supersedes Statement 94.
84-42	Push-Down of Parent Company Debt to a Subsidiary	N/A (Status Update)	The Status section refers to Statement 94 but states that that Statement does not address this Issue.	Statement 1XX was issued XX 200X. It does not affect the guidance in this Issue; however, Statement 1XX supersedes Statement 94.
85-21	Changes of Ownership Resulting in a New Basis of Accounting	N/A (Status Update)	The Status section refers to Statement 94 but states that that Statement does not address this Issue.	Statement 1XX was issued XX 200X. It does not affect the guidance in this Issue; however, Statement 1XX supersedes Statement 94.
88-15	Classification of Subsidiary's Loan Payable in Consolidated Balance Sheet When Subsidiary's and Parent's Fiscal Years Differ	N/A (Status Update)	This Issue refers to paragraph 4 of ARB 51.	Statement 1XX was issued XX 200X. It does not affect the guidance in this Issue. However, Statement 1XX replaces ARB 51 but carries forward the guidance in paragraph 4 of ARB 51 without reconsideration.

<b>EITF Issue No.</b>	<b>Title</b>	<b>Status</b>	<b>Effect of Statement on Consensus</b>	<b>Addition to Abstracts</b>
88-16	Basis in Leveraged Buyout Transactions	Partially Nullified— Unnecessary	Footnote 5 of this Issue refers to paragraph 10 of ARB 51, which established accounting principles applicable to step acquisitions.	Statement 1XX was issued XX 200X. It changes the guidance in paragraph 10 of ARB 51. The guidance for step acquisitions (now referred to as <i>business combinations achieved in stages</i> ) is now provided by Statement 141(R).
90-5	Exchanges of Ownership Interests between Entities under Common Control	Issue 2— Nullified— Unnecessary	Issue 2 addresses the acquisition by one subsidiary of another subsidiary’s minority interest if both subsidiaries are under common control. The Task Force reached a consensus that that acquisition should be accounted for by the purchase method as an acquisition of minority interests.	Statement 1XX was issued XX 200X. It nullifies the consensus in Issue 2 because it requires that acquisitions of noncontrolling interests after control is obtained be accounted for as equity transactions rather than by the purchase method.
90-13	Accounting for Simultaneous Common Control Mergers	Issue 2(a)— Nullified— Unnecessary	Issue 2(a) provides guidance for a transaction in which a parent obtains control of an entity and, at the same time, that entity issues shares to the parent in exchange for the parent’s interest in its subsidiary. The Task Force reached a consensus that the transaction should be accounted for as a partial sale of the subsidiary to the minority shareholders of the parent. Therefore, a gain or loss would be recognized by the parent on the portion of the subsidiary sold.	Statement 1XX was issued XX 200X. It nullifies the consensus in Issue 2(a) because it requires that sales of noncontrolling interests in subsidiaries without a loss of control of the subsidiary be accounted for as equity transactions.
90-15	Impact of Nonsubstantive Lessors, Residual Value	N/A (Status Update)	The Status section of this Issue was updated by Interpretation 46(R) to state that “if a lessor entity is not a	Statement 1XX was issued XX 200X. It does not affect the guidance in this Issue.

<b>EITF Issue No.</b>	<b>Title</b>	<b>Status</b>	<b>Effect of Statement on Consensus</b>	<b>Addition to Abstracts</b>
	Guarantees, and Other Provisions in Leasing Transactions		variable interest entity, it is subject to the requirements of ARB 51 as amended by FASB Statement No. 94, <i>Consolidation of All Majority-Owned Subsidiaries.</i> ”	However, Statement 1XX replaces ARB 51 and supersedes Statement 94, but carries forward the majority of the requirements of ARB 51, as amended, without reconsideration.
94-2	Treatment of Minority Interests in Certain Real Estate Investment Trusts	Nullified—Unnecessary	In this Issue, the Task Force’s observation is that if the net equity of the operating partnership is less than zero, then the initial minority interest is zero unless there is an obligation of the minority interest to make good those losses.	Statement 1XX was issued XX 200X. It nullifies that observation and eliminates the requirement in ARB 51 that losses in excess of the minority (noncontrolling) interest’s equity capital be attributed to the controlling interest. Thus, the minority (noncontrolling) interest, which is a component of equity, could be reported as an equity deficit.
95-7	Implementation Issues Related to the Treatment of Minority Interests in Certain Real Estate Investment Trusts	Issue 1—Nullified—Unnecessary	Issue 1 addresses how an operating partnership’s income and losses and distributions should be allocated between the controlling and noncontrolling interests in the real estate investment trust’s consolidated financial statements if the minority interest balance at formation is less than zero based on the minority interest’s proportionate share of the operating partnership’s net deficit. The Task Force reached a consensus that the	Statement 1XX was issued XX 200X. It nullifies the consensus reached in Issue 1 because it eliminates the requirement in ARB 51 that losses in excess of the minority (noncontrolling) interest’s equity capital be attributed to the controlling interest. Thus, the minority (noncontrolling) interest, which is a component of equity, could be reported as an

<b>EITF Issue No.</b>	<b>Title</b>	<b>Status</b>	<b>Effect of Statement on Consensus</b>	<b>Addition to Abstracts</b>
			minority interest should not be allocated losses if the minority interest's balance is less than zero at formation.	equity deficit.
96-16	Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights	N/A (Status Update)  Partially Nullified—Unnecessary	<p>This Issue addresses what minority rights held by the minority shareholder overcome the presumption of Statement 94 that all majority-owned investees should be consolidated.</p> <p>Under the discussion of Transition Method A, this Issue states that “generally, changes in accounting for a majority ownership interest from consolidation to the equity method of accounting or changes from the equity method to consolidation would not result in an adjustment to previously reported equity or net income. However, a change from consolidation to the equity method could result in a cumulative effect adjustment if losses recognized in consolidation would not have been recognized under the equity method or vice versa (see paragraph 15 of ARB 51, and paragraph 19(i) of Opinion 18).”</p>	<p>Statement 1XX was issued XX 200X. It does not affect the guidance in this Issue. However, Statement 1XX supersedes Statement 94 but carries forward its guidance without reconsideration.</p> <p>Statement 1XX was issued XX 200X. It eliminates the requirement in paragraph 15 of ARB 51.</p>
97-2	Application of FASB Statement No. 94 and APB Opinion No. 16 to Physician	N/A (Status Update)	This Issue addresses the application of Statement 94 to physician practice management entities.	Statement 1XX was issued XX 200X. It does not affect the guidance in this Issue. However, it supersedes Statement 94, but

<b>EITF Issue No.</b>	<b>Title</b>	<b>Status</b>	<b>Effect of Statement on Consensus</b>	<b>Addition to Abstracts</b>
	Practice Management Entities and Certain Other Entities with Contractual Management Arrangements			carries forward its guidance without reconsideration.
98-2	Accounting by a Subsidiary or Joint Venture for an Investment in the Stock of Its Parent Company or Joint Venture Partner	N/A (Status Update)	This Issue states that “paragraph 13 of ARB 51 states that shares of a parent company held by a subsidiary should not be treated as outstanding stock in the consolidated balance sheet of the parent.”	Statement 1XX was issued XX 200X. It does not affect the guidance in this Issue; however, it replaces ARB 51 but carries forward the guidance in paragraph 13 of ARB 51 without reconsideration.
99-1	Accounting for Debt Convertible into the Stock of a Consolidated Subsidiary	N/A (Status Update)	The Task Force reached a consensus that both (a) debt issued by a consolidated subsidiary that is convertible into that subsidiary’s stock or (b) debt issued by a parent company that is convertible into the stock of a consolidated subsidiary should be accounted for under Opinion 14 because the embedded derivative is considered equity. Therefore, the embedded derivative qualifies for the scope exclusion in paragraph 11(a) of Statement 133.	Statement 1XX was issued XX 200X. It does not affect the guidance in this Issue.
00-6	Accounting for Freestanding Derivative Financial Instruments Indexed to, and Potentially Settled in, the Stock of a Consolidated	Nullified—Unnecessary	The Task Force reached a consensus that for this Issue stock of a subsidiary is not considered equity of the parent (reporting entity).	Statement 1XX was issued XX 200X. It nullifies this consensus because it requires that stock of a subsidiary, including that owned by the noncontrolling interests in the subsidiary, be classified as equity of the

	Subsidiary	Nullified— Unnecessary	The Task Force also reached a consensus that the cost of acquiring shares of a consolidated subsidiary should be accounted for as a step acquisition in accordance with Opinion 16 (as amended by Statement 141).	consolidated entity.  Statement 1XX was issued in XX 200X. It nullifies this consensus because it requires that acquisitions of minority (noncontrolling) shares of a consolidated subsidiary be accounted for as equity transactions.
01-2	Interpretations of APB Opinion No. 29	Issues 6, 8(b), and 9— Partially Nullified— Unnecessary	Issues 6 and 8(b) address how to calculate the gain (or loss) if an entity transfers its ownership of a controlled asset, assets, or <i>business</i> to another entity in exchange for a noncontrolling ownership interest in the other entity.	Statement 1XX was issued XX 200X. It does not affect the guidance in these Issues related to the transfer of controlled assets. However, Statement 1XX provides guidance for calculating the gain or loss when control of a subsidiary is lost. Therefore, Statement 1XX would nullify this guidance if the transferred assets constitute a subsidiary.
02-14	Whether an Investor Should Apply the Equity Method of Accounting to Investments Other Than Common Stock	N/A (Status Update)	Paragraph 12 refers to the guidance in ARB 51 for determining whether the investor’s economic interest is subject to consolidation.	Statement 1XX was issued XX 200X. It does not affect the guidance in this Issue. However, it replaces ARB 51 but carries forward that guidance in ARB 51 without reconsideration.
D-14	Transactions involving Special-Purpose Entities	N/A (Status Update)	This Topic was nullified by Interpretation 46(R) for entities within the scope of Interpretation 46(R). This Topic also was updated by Interpretation 46(R) to state that “if an SPE is not a variable interest entity, it is subject to the requirements of ARB 51 as amended by Statement 94.”	Statement 1XX was issued XX 200X. It does not affect this Topic. Statement 1XX replaces ARB 51 and supersedes Statement 94, but carries forward the majority of the requirements in ARB 51, as amended, without reconsideration.

## FASB Staff Positions

E3. The following table lists FASB Staff Positions (FSPs) relating to noncontrolling interests and indicates (a) the status of that literature after issuance of this Statement and (b) the impact of this Statement on that literature (if any) or the reasons that the literature is beyond the scope of this Statement.

<b>Status Legend</b>	
N/A	Guidance is either outside the scope of this Statement or unaffected by this Statement.

<b>FSP No.</b>	<b>Title</b>	<b>Effect of Statement on FSP</b>	<b>Comments</b>
150-3	Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests under FASB Statement No. 150	N/A	This FSP defers the effective date of Statement 150 for certain mandatorily redeemable noncontrolling interests of all entities, public, and nonpublic. This Statement does not address mandatorily redeemable noncontrolling interests.

## AICPA Literature

E4. The following table lists guidance issued by the AICPA or its staff that may be affected by the decisions made by the Board in this Statement. This information is presented for informational purposes only. Decisions about whether to amend AICPA guidance are made by the FASB in conjunction with the AICPA prior to issuing the final Statement. (Note: *The AICPA will physically make the changes until we have an FASB codification.*)

AICPA Literature	Title	Analysis
SOP 94-3	Reporting of Related Entities by Not-for-Profit Organizations	Paragraph 5 states that not-for-profit organizations with a controlling financial interest in a for-profit entity through direct or indirect ownership of a majority voting interest in that entity should follow the guidance in ARB 51, as amended by Statements 94 and 144, in determining whether the financial position, results of operations, and cash flows of the for-profit entity should be included in the not-for-profit organization's financial statements. Statement 1XX replaces ARB 51 and supersedes Statement 94.
SOP 95-1	Accounting for Certain Insurance Activities of Mutual Life Insurance Enterprises	Paragraph 41 states that for contracts limiting the amount of net income that may be distributed to stockholders, the net income amount that cannot be distributed to shareholders is excluded from stockholders' equity by a charge to operations and a credit to a liability, <i>a method similar to the accounting for net income applicable to minority interests</i> (emphasis added). Statement 1XX requires that minority (noncontrolling) interest no longer be deducted to determine consolidated net income.
SOP 00-3	Accounting by Insurance Enterprises for Demutualizations and Formations of Mutual Insurance Holding Companies and for Certain Long-Duration Participating Contracts	Paragraph 39 states that segregating undistributed accumulated earnings on participating contracts in a manner <i>similar to minority interest</i> may be meaningful in a stock life company because the objective of that presentation is to identify amounts that are not distributable to stockholders (emphasis added). Statement 1XX requires minority (noncontrolling) interests be classified as a separate component of equity because they are considered part of the equity of the consolidated group.  Additionally, paragraphs 44 and 49 of this SOP refer to paragraph 42 of Statement 60, which is amended by this Statement.

<p>AICPA Audit and Accounting Guides</p>	<p>Agricultural Producers and Agricultural Cooperatives</p> <p>Brokers and Dealers in Securities</p> <p>Construction Contractors</p> <p>Depository and Lending Institutions: Banks and Savings Institutions, Credit Unions, Finance Companies and Mortgage Companies</p> <p>Health Care Organizations</p> <p>Investment Companies</p> <p>Life and Health Insurance Entities</p> <p>Not-for-Profit Organizations</p> <p>Entities With Oil and Gas Producing Activities</p> <p>Property and Liability Insurance Companies</p>	<p>These AICPA Audit and Accounting Guides refer to guidance in either or both ARB 51 or Statement 94. Statement 1XX replaces ARB 51 and supersedes Statement 94.</p>
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## SEC or SEC Staff Literature

E5. The following table lists guidance issued by the SEC or its staff that the FASB staff believes may be affected by the decisions made by the Board in this Statement. This information is presented for informational purposes only. Decisions about whether to amend SEC or SEC staff guidance are made by the SEC and its staff.

SEC or SEC Staff Literature	Title or Subject	Analysis
SAB Topic 5.H	Accounting for Sales of Stock by a Subsidiary— Question 1	<p>This SAB Topic states that when an offering takes the form of a subsidiary’s direct sale of its unissued shares, the amount in excess of the parent’s carrying value can be reflected as a gain in the consolidated income statement in situations in which no other such capital transactions are contemplated.</p> <p>Statement 1XX requires that changes in a parent’s controlling ownership interests in a subsidiary after control is obtained that do not result in a loss of control be accounted for as equity transactions.</p>
SAB Topic 6.B	General Revision of Regulation S-X: Income or Loss Applicable to Common Stock	Pursuant to this SAB Topic, net income or loss is presented net of minority interest income or expense. Statement 1XX requires separate presentation of consolidated net income or loss and net income or loss attributable to the controlling and minority (noncontrolling) interests.
Rule 1-02(w)(3)	Significant Subsidiary	A portion of this guidance requires that significance be calculated on income from continuing operations that is net of minority interest. Statement 1XX refers to income from continuing operations as income attributable to the controlling and the minority (noncontrolling) interest. This could affect whether summarized financial information of equity method investees or unconsolidated subsidiaries is required in the notes to the financial statements. (Refer to Rule 4-08(g) of Regulation S-X.)
Rule 5-02.27 Rule 7-03.20 Rule 9-03.18	Balance Sheet Presentation	The guidance is not specific as to whether minority interests should be classified as liabilities, equity, or mezzanine. Statement 1XX requires that minority (noncontrolling) interests be classified as a separate component of equity.

<b>SEC or SEC Staff Literature</b>	<b>Title or Subject</b>	<b>Analysis</b>
Rule 5-02.31  Rule 7-03.24  Rule 9-03.22	Other Stockholders' Equity	The guidance is not specific as to whether minority interests should be classified as liabilities, equity, or mezzanine. Statement 1XX requires that minority (noncontrolling) interests be classified as a separate component of equity.
Rule 5-03.12  Rule 7-04.10  Rule 9-04.14(e)	Minority Interest Expense	The guidance requires that minority interest be deducted in the computation of net income or loss. Statement 1XX precludes deducting income attributable to minority (noncontrolling) interests to arrive at consolidated net income, but requires separate disclosure on the face of the income statement of the amount of net income attributable to the minority (noncontrolling) interest.
Rule 5-03.19  Rule 6-08.9  Rule 7-04.17  Rule 9-04.20	Net Income or Loss	This guidance requires presentation of net income or loss, which is net of minority interest income or expense. Statement 1XX requires that consolidated net income or loss and net income or loss attributable to the controlling interest and noncontrolling interests each be disclosed separately on the face of the income statement.
Rule 7-03.1(h)(6)	Notes	This guidance requires certain disclosures when investments exceed 10 percent of total stockholders' equity. Because Statement 1XX requires that minority (noncontrolling) interests be classified as a separate component of equity, the test, unless changed, would include any minority (noncontrolling) interest balance in the computation.