EITF ABSTRACTS

Issue No. 01-2

Title: Interpretations of APB Opinion No. 29

Dates Discussed: December 3–4, 1986; January 15, 1987; February 26, 1987; May 21, 1987; November 12–13, 1987; January 28, 1988; April 21, 1988; June 2, 1988; July 14, 1988; April 6, 1989; May 18, 1989; August 10, 1989; October 26, 1989; March 21, 1996; May 23, 1996; July 18, 1996; September 18–19, 1996; March 18–19, 1998; May 21, 1998; November 18–19, 1998; January 21, 1999; March 24–25, 1999; May 19–20, 1999; July 22, 1999; September 23, 2000; November 17–18, 1999; January 19–20, 2000; March 16, 2000; September 20–21, 2000; April 18–19, 2001; November 14–15, 2001; June 19–20, 2002

References:
FASB Statement No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies*
FASB Statement No. 66, *Accounting for Sales of Real Estate*
FASB Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*
FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*
FASB Statement No. 141, *Business Combinations*
FASB Statement No. 141 (revised 2007), *Business Combinations*
FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*
FASB Statement No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections*
FASB Statement No. 153, *Exchanges of Nonmonetary Assets*
FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*
FASB Interpretation No. 43, *Real Estate Sales*
FASB Special Report, *A Guide to Implementation of Statement 140 on Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*
Accounting Standards Update No. 2010-08, *Technical Corrections to Various Topics*
APB Opinion No. 16, *Business Combinations*
APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*
APB Opinion No. 29, *Accounting for Nonmonetary Transactions*
AICPA Accounting Research Bulletin No. 51, *Consolidated Financial Statements*

AICPA Statement of Position 78-9, *Accounting for Investments in Real Estate Ventures*
SEC Staff Accounting Bulletin No. 48, *Transfers of Nonmonetary Assets by Promoters or Shareholders*
SEC Staff Accounting Bulletin No. 82, *Certain Transfers of Nonperforming Assets*
SEC Staff Accounting Bulletin No. 97, *Business Combinations Prior to an Initial Public Offering and Determination of the Acquiring Corporation*
SEC Staff Accounting Bulletin No. 103, *Update of Codification of Staff Accounting Bulletins*

ISSUE

1. The basic principle in Opinion 29 is that the accounting for nonmonetary transactions should be based on the fair values of the assets (or services) exchanged. The cost of a nonmonetary asset acquired in exchange for another nonmonetary asset is the fair value of the asset surrendered to obtain it, and a gain or loss for the difference between the carrying amount of the surrendered asset and its fair value should be recognized on the exchange. The fair value of the asset received should be used to measure the fair value of the asset surrendered (and the cost of the asset received) if it is more clearly evident than the fair value of the asset surrendered. Opinion 29 includes several modifications to that principle in circumstances in which (a) fair values of the assets exchanged are not readily determinable (paragraph 20(a) of Opinion 29), (b) the assets exchanged are products or properties held for sale in the same line of business to facilitate sales to customers other than the parties to the exchange (paragraph 20(b) of Opinion 29), (c) the assets exchanged are similar productive assets not held for sale in the ordinary course of business, [Note: See paragraph 44 of the STATUS section.] (d) the exchange involves an amount of monetary consideration (paragraph 22 of Opinion 29), and (e) the transaction represents a nonreciprocal transfer to owners (paragraph 23 of

Opinion 29). Over the years, the Task Force has addressed several issues relating to the guidance in Opinion 29. The purpose of this Issue is to codify and reconcile the following Issues:

Issue No. 86-29, "Nonmonetary Transactions: Magnitude of Boot and the Exceptions to the Use of Fair Value" (paragraphs 4–6, and 18–19)
Issue No. 87-17, "Spinoffs or Other Distributions of Loans Receivable to Shareholders" (paragraphs 28–29)
Issue No. 87-29, "Exchange of Real Estate Involving Boot" (paragraphs 25–27)
Issue No. 89-7, "Exchange of Assets or Interest in a Subsidiary for a Noncontrolling Equity Interest in a New Entity" (paragraphs 21–24)
Issue No. 96-2, "Impairment Recognition When a Nonmonetary Asset Is Exchanged or Is Distributed to Owners and Is Accounted for at the Asset's Recorded Amount" (paragraphs 33–39)
Issue No. 96-4, "Accounting for Reorganizations Involving a Non–Pro Rata Split-off of Certain Nonmonetary Assets to Owners" (paragraphs 30–32)
Issue No. 98-7, "Accounting for Exchanges of Similar Equity Method Investments" (paragraph 11)
Issue No. 00-5, "Determining Whether a Nonmonetary Transaction Is an Exchange of Similar Productive Assets" (paragraphs 2–3, 9–10, and 12–17).

The Task Force observed that the transition guidance for the above Issues is governed by the original consensuses on those Issues.

EITF DISCUSSION

Exchanges of Similar Productive Assets (Paragraph 21(b) of Opinion 29)

2. Opinion 29 includes an exception to the basic principle of fair value for transactions in which an enterprise exchanges a productive asset for a similar productive asset or an equivalent interest in the same or similar productive asset (the similar productive asset exception). The Board concluded that such an exchange was "not essentially the culmination of an earnings process." A *productive asset* is defined in paragraph 3(e) of Opinion 29 as "assets held for or used in the production of goods or services by the enterprise. Productive assets include an investment in another entity if the investment is

accounted for by the equity method but exclude an investment not accounted for by that method." Paragraph 3(e) of Opinion 29 defines *similar productive assets* as "productive assets that are of the same general type, that perform the same function or that are employed in the same line of business."

3. Issues 1–6 address how the assessment of whether or not two productive assets are similar productive assets *(the similar assessment)* should be applied. The Task Force reached a consensus that the scope of Issues 1–6 excludes:

a. Transfers between a joint venture[1] and its owners
b. Contributions of real estate in return for an unconsolidated real estate investment (the accounting for which is addressed in SOP 78-9)
c. Transfers of real estate in exchange for nonmonetary assets other than real estate (the recognition of profit from the exchange is addressed in Statement 66), and
d. [This subparagraph has been deleted. See paragraph 48 of the STATUS section.]

The Task Force also observed that the scope of Issues 8 and 9, which address exchanges involving monetary consideration, excludes transfers between a joint venture and its owners. In addition, the Task Force observed that the scope of Issues 8(b) and 9 also excludes transfers of real estate (guidance with respect to transfers of real estate in exchanges involving monetary consideration is provided in Statement 66 and herein, under Issue 10).

Issue 1—Whether an entity's degree of influence (controlled and consolidated versus not controlled and accounted for under the equity method) over the asset or group

[1]The Task Force concluded that the definition of joint venture for purposes of this Issue should be based on the definition provided in Opinion 18, without being limited to corporate entities. Accordingly, for this Issue, a "joint venture" is an entity owned and operated by a small group of businesses (the "joint venturers") as a separate and specific business or project for the mutual benefit of the members of the group. A government may also be a member of the group. The purpose of a joint venture frequently is to share risks and rewards in developing a new market, product, or technology; to combine complementary technological knowledge; or to pool resources in developing production or other facilities. A joint venture also usually provides an arrangement under which each joint venturer may participate, directly or indirectly, in the overall management of the joint venture. Joint venturers thus have an interest or relationship other than as passive investors. An entity that is a subsidiary of one of the "joint venturers" is not a joint venture. The ownership of a joint venture seldom changes, and its equity interests usually are

of assets received when compared with the asset or group of assets given up impacts the similar assessment. [Note: See STATUS section.]

Issue 1(a)—Whether the exchange of assets or groups of assets involving the receipt of a consolidated business can be considered an exchange of similar productive assets accounted for at historical cost pursuant to paragraph 21(b) of Opinion 29. [Note: See STATUS section.]

[Note: After the adoption of Statement 141(R) (effective for business combinations with an acquisition date on or after the beginning of the first annual reporting period beginning on or after 12/15/08), paragraph 4 is deleted.]

4. Paragraph 4(a) of Opinion 29 states that that Opinion is not applicable to "a business combination accounted for by an enterprise according to the provisions of APB Opinion No. 16, *Business Combinations*." While the acquisition of a minority interest does not meet the definition of a business combination in paragraph 5 of Opinion 16, the Task Force observed that paragraphs 5 and 43 of Opinion 16 clarify that the acquisition of a minority interest should be accounted for using the purchase method. [Note: See STATUS section.]

[Note: After the adoption of Statement 141(R) (effective for business combinations with an acquisition date on or after the beginning of the first annual reporting period beginning on or after 12/15/08), paragraph 5 is deleted.]

5. In Issue 86-29 the Task Force reached a consensus that an enterprise should account for an exchange of securities in which it acquires control of a subsidiary as a business combination in accordance with Opinion 16. However, the Task Force observed that the consensus is not intended to change the application of Opinion 16 or to eliminate

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not traded publicly. A minority public ownership, however, does not preclude an entity from being a joint the need to exercise judgment in those circumstances in which the substance of a transaction indicates that fair value accounting is not appropriate. That is, if Opinion 16 is to apply, the substance of the transaction must be a business combination. [Note: See STATUS section.]

6. Several Task Force members and the SEC Observer expressed concern that a literal application of the consensus to an exchange in which an enterprise acquires control of a business could result in the recognition of gain in circumstances in which an entity has not transferred control of the asset surrendered. For example, Company A transfers an asset to Company B in exchange for shares of Company B. As a result of the exchange, Company A acquires control of Company B; Company A also indirectly retains control of the asset received by Company B. The Task Force agreed that Company A should account for this transaction as a partial sale (to minority shareholders of Company B), and gain recognition should be limited to that portion of the asset treated as sold. If Company B accounts for the exchange at fair value, profit applicable to the portion of the asset indirectly controlled by Company A would be eliminated in Company A's consolidation of Company B.

[Note: Prior to the adoption of Statement 141(R) (effective for business combinations with an acquisition date on or after the beginning of the first annual reporting period beginning on or after 12/15/08), paragraph 7 should read as follows:]

7. In Issue No. 98-3, "Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business," the SEC Observer stated that the SEC staff will require registrants to account for the exchange of consolidated businesses, even

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venture.

if in the same line of business, as a fair value transaction under the guidance of Opinion 16. [Note: See STATUS section.] The SEC Observer also stated that the SEC staff believes that Opinion 16 governs the acquisition of a consolidated business when acquired for nonmonetary assets, including equity method investments.

[Note: After the adoption of Statement 141(R), paragraph 7 should read as follows:]

7. The SEC Observer stated that the SEC staff will require registrants to account for the exchange of consolidated businesses, even if in the same line of business, as a fair value transaction under the guidance of Opinion 16. [Note: See STATUS section.] The SEC Observer also stated that the SEC staff believes that Opinion 16 governs the acquisition of a consolidated business when acquired for nonmonetary assets, including equity method investments.

8. The SEC Observer also stated that the SEC staff believes that the exchange of a consolidated business for an interest in a joint venture would typically not result in gain recognition, absent the receipt of cash or near cash consideration. The SEC Observer also stated that the guidance provided in SAB 48, as clarified by SAB 97, remains unchanged. [Note: See STATUS section.]

[Note: After the adoption of Statement 141(R) (effective for business combinations with an acquisition date on or after the beginning of the first annual reporting period beginning on or after 12/15/08), paragraph 9 is deleted.]

9. The determination regarding whether exchanges of certain types of assets, for example, radio stations, cable systems, and hotels, are considered exchanges of productive assets or business combinations should be based on the facts and circumstances, and should consider the definition of a business in Issue 98-3.

Issue 1(b)—Whether a controlled business (as defined in Issue 98-3) that is surrendered in a nonmonetary exchange meets the definition of a productive asset in paragraph 3(e) of Opinion 29.

10. The Task Force discussed whether a controlled business that is surrendered in a nonmonetary exchange meets the definition of a productive asset in paragraph 3(e) of Opinion 29 but did not reach a consensus. The SEC Observer reiterated the SEC staff position that a consolidated business does not constitute a productive asset as defined in paragraph 3(e) of Opinion 29. As a result, transactions by SEC registrants that involve the exchange of a business for any nonmonetary asset(s), including an equity method investment that is not an interest in a joint venture, are not exchanges of productive assets and must be accounted for at fair value unless fair value is not determinable within reasonable limits. The SEC Observer expects this guidance to be applied prospectively to transactions committed to after September 21, 2000. [Note: This Issue has been nullified by Statement 153. See STATUS section.]

Issue 1(c)—How to account for the exchange of an equity method investment for a similar equity method investment.

11. The Task Force reached a consensus that the exchange of an equity method investment for a similar equity method investment should be accounted for in accordance with paragraph 21(b) of Opinion 29. [Note: This consensus has been nullified by Statement 153. See STATUS section.] The Task Force observed that Issues 2–5 provide guidance for determining whether productive assets are similar. The Task Force also

observed that this consensus has been incorporated into Question 13 of the Special Report on implementation of Statement 140, which states:

> 13. *Q*—Is a transfer of an equity method investment within the scope of Statement 140?
>
> *A*—Yes, unless the transfer is an exchange of an equity method investment for a similar productive asset, or the transfer is of an investment that is in substance a sale of real estate, as defined in FASB Interpretation No. 43, *Real Estate Sales*.
>
> . . . When deliberating Statement 140, the Board decided to include the two exceptions noted above to this general rule. Those exceptions resolve scope conflicts with APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, and FASB Statement No. 66, *Accounting for Sales of Real Estate*, and affirm consensuses reached by the EITF in Issues No. 98-7, "Accounting for Exchanges of Similar Equity Method Investments," and No. 98-8, "Accounting for Transfers of Investments That Are in Substance Real Estate."

Issue 2—Whether certain of the similar criteria (same general type, perform the same function, or employed in the same line of business) should be applied only to certain transactions.

12. The Task Force reached a consensus that the "type" and "function" criteria only apply to a productive asset that is a singular asset (or multiple singular assets[2]), and the "same line of business" criterion only applies to a productive asset that consists of a group of assets. [Note: This consensus has been nullified by Statement 153. See STATUS section.]

Issue 3—How the "same line of business" criterion should be applied.

[2]For example, 10 delivery trucks.

13. The Task Force reached a consensus that in order to conclude that two productive assets are in the same line of business, the two productive assets must be similar with regard to both:

a. The nature of the output (products and services) from the productive assets
b. The nature of the process used to manufacture, develop, or provide those products and services.

[Note: This consensus has been nullified by Statement 153. See STATUS section.]

Issue 4—For a productive asset that consists of more than one asset, whether the similar assessment should be applied at the productive asset (group) level or at some level of aggregation below the productive asset (group) level.

14. The Task Force reached a consensus that an exchange of a productive asset that consists of a group of assets should be examined at the productive asset (group) level. [Note: This consensus has been nullified by Statement 153. See STATUS section.] That is, one would not look through the productive asset (group) to the singular assets that make up the productive asset to perform the similar assessment.

Issue 5—Whether the way in which the entity intends to use the productive asset received impacts the similar assessment.

15. The Task Force reached a consensus that the similar assessment should be based on the intent of the entity with respect to the productive asset received if both of the following conditions exist:

a. The activities necessary to convert the productive asset from one line of business to another line of business must be initiated by management having the appropriate authority no later than the end of the quarter immediately following the quarter in which the exchange transaction closes and must be completed within a reasonable period of time. For example, Company A exchanges a hotel for Company B's apartment building. The transaction closes in the first quarter of 2000. Company A intends to convert the apartment building to a hotel and operate it as such. For Company A to conclude that the productive assets subject to the exchange are in the same line of business, Company A must initiate the activities necessary to convert the apartment building to a hotel by the end of the second quarter of 2000, and must expect to complete the conversion within a reasonable period of time.

b. The cost to convert the productive asset received from one line of business to another cannot exceed 25 percent of the fair value of that productive asset.

Unless both of the above conditions are met, the intent of the entity with respect to the productive asset received should not be a factor in the similar assessment. [Note: This consensus has been nullified by Statement 153. See STATUS section.]

[Note: For not-for-profit organizations and all other entities that prepare consolidated financial statements prior to the adoption of Statement 160 (effective for fiscal years, and interim periods within those fiscal years, beginning on or after 12/15/08), *Issue 6* should read as follows:]

Issue 6—If a nonmonetary exchange is required to be accounted for at fair value, whether full or partial gain recognition is appropriate in a circumstance in which one entity (Entity A) transfers its ownership of either a controlled productive asset or assets or a controlled business to another entity (Entity B) in exchange for a noncontrolling ownership interest in that entity (Entity B).

[Note: After the adoption of Statement 160, for all entities that prepare consolidated financial statements (except for not-for-profit organizations), *Issue 6* should read as follows:]

Issue 6—If a nonmonetary exchange is required to be accounted for at fair value, whether full or partial gain recognition is appropriate in a circumstance in which one entity (Entity A) transfers its ownership of either a controlled productive asset or assets to another entity (Entity B) in exchange for a noncontrolling ownership interest in that entity (Entity B).

16. The Task Force reached a consensus on Issue 6 that if the fair value of the asset(s) given up (or of the ownership interest received if the fair value of that asset is more readily determinable) is less than its carrying value, that difference should be recognized as a loss. [Note: See STATUS section.] If the fair value of the asset(s) given up (or of the ownership interest received if that asset's fair value is more readily determinable) is greater than its carrying value, then (a) a gain in the amount of that difference should be recognized if the entity accounts for the ownership interest received using the cost method, or (b) a partial gain should be recognized if the entity accounts for the ownership interest received using the equity method. The partial gain should be calculated as the amount described in (a), above, less the portion of that gain represented by the economic interest (which may be different from the voting interest) retained. For example, if Entity A exchanges an asset with a carrying value of $1,000 and a fair value of $2,000 for a 30 percent economic interest in Entity B, Entity A should recognize a gain of $700 [($2,000 – $1,000) × 70%]. Thus, the amount recorded for the ownership interest received is partially based on its fair value at the exchange date and partially based on the carryover amount of the asset(s) surrendered.

17. The Task Force observed that paragraph 20 of Opinion 29 requires that the accounting for a nonmonetary transaction subject to Opinion 29 should not be based on the fair values of the assets transferred unless those fair values are determinable within reasonable limits.

[Note: After the adoption of Statement 160 (effective for fiscal years, and interim periods within those fiscal years, beginning on or after 12/15/08), for all entities that prepare consolidated financial statements (except for not-for-profit organizations), paragraph 17A is added as follows:]

17A. ARB 51 provides guidance for deconsolidation of a subsidiary. If the asset Entity A transfers to Entity B in exchange for a noncontrolling interest in Entity B is a subsidiary, the gain or loss of a controlling financial interest in that subsidiary is accounted for in accordance with ARB 51.

Exchange of Product or Property Held for Sale for Productive Assets (Paragraph 21 of Opinion 29)

Issue 7—Whether an exchange of a product or property held for sale in the ordinary course of business for a productive asset not held for sale in the ordinary course of business can qualify for the exception to fair value accounting for certain exchanges described in paragraph 21 of Opinion 29.

18. The Task Force reached a consensus that an exchange of a product or property held for sale in the ordinary course of business for a productive asset not held for sale in the ordinary course of business does not fall within the modifications to the basic principle of Opinion 29 (even if they are in the same line of business) and should be recorded at fair value. [Note: This consensus has been nullified by Statement 153. See STATUS section.]

Exchanges Involving Monetary Consideration (Paragraph 22 of Opinion 29)

Issue 8(a)—What level of monetary consideration in a nonmonetary exchange causes the transaction to be considered monetary in its entirety and, therefore, outside the scope of Opinion 29.

19. The Task Force discussed an exchange of nonmonetary assets that would otherwise be based on recorded amounts but that also involves monetary consideration (boot). The

Task Force reached a consensus that that transaction should be considered monetary (rather than nonmonetary) if the boot is significant, and agreed that "significant" should be defined as at least 25 percent of the fair value of the exchange. As a monetary transaction, both parties would record the exchange at fair value[3] (as discussed in Issue 8(b), below). If the boot in a transaction is less than 25 percent, the pro rata gain recognition guidance in paragraph 22 of Opinion 29 should be applied by the receiver of boot, and the payer of boot would not recognize a gain. The Task Force acknowledged that the ability to satisfactorily measure fair value is a prerequisite to the use of fair value.

[Note: For not-for-profit organizations and all other entities that prepare consolidated financial statements prior to the adoption of Statement 160 (effective for fiscal years, and interim periods within those fiscal years, beginning on or after 12/15/08), *Issue 8(b)* should read as follows:]

Issue 8(b)—In a monetary exchange (required to be accounted for at fair value), whether "full or partial" gain recognition is appropriate if an entity transfers its ownership of a controlled asset, group of assets, or business to another entity in exchange for a noncontrolling ownership interest in the other entity.

[Note: After the adoption of Statement 160, for all entities that prepare consolidated financial statements (except for not-for-profit organizations), *Issue 8(b)* should read as follows:]

Issue 8(b)—In a monetary exchange (required to be accounted for at fair value), whether "full or partial" gain recognition is appropriate if an entity transfers its ownership of a controlled asset or group of assets to another entity in exchange for a noncontrolling ownership interest in the other entity.

[3]For real estate transactions, see Issue 10.

20. The Task Force reached a consensus on Issue 8(b) that the gain should be computed in a manner consistent with the consensus reached in Issue 6. The Task Force reached a consensus that application of the consensus on Issue 8(b) is required for exchange transactions committed to after April 19, 2001. A transaction is committed to if the parties to the transaction have signed a binding, written agreement that specifically sets forth the principal provisions of the transaction. If any of the principal provisions are yet to be negotiated, or are subsequently changed, such a preliminary agreement does not qualify as a commitment for purposes of this consensus.

Issue 9—In the monetary exchange described below, whether the amount of gain recognized should exceed the amount that would be computed pursuant to the guidance for Issue 8(b).

21. An enterprise transfers its ownership of an individual asset (or assets) or its ownership interest in a subsidiary to a newly created entity in exchange for an ownership interest in that entity that will be accounted for by the equity method and monetary consideration. The monetary consideration received exceeds the fair value of the portion of the surrendered asset that has been sold in the exchange. The excess monetary consideration is funded by proceeds from nonrecourse financing within the newly created entity. Subsequent to the transfer, the enterprise does not control the entity. The specifics of the transaction are as follows:

- • Company A owns equipment with a book basis of $100 and an appraised value of $400.
- Company B, previously unrelated to Company A, creates a new subsidiary, Company X, and transfers cash of $60 to Company X.

- Company A transfers the equipment to Company X in exchange for shares of Company X stock that represent a 40 percent ownership interest in Company X. Simultaneously, Company X borrows $300 with recourse to only the equipment and pays Company A $360 cash.

22. The Task Force reached a consensus that if the enterprise has no actual or implied commitment, financial or otherwise, to support the operations of the new entity in any manner, a gain of $260 should be recognized. The investor's basis in the new entity should be no less than zero. The gain calculation is illustrated as follows:

Fair value of interest in equipment sold ($400 × 60%)	$ 240
Less: Cost of interest in equipment sold ($100 × 60%)	(60)
	$ 180
Plus: Additional gain to the extent of the negative investment	80*
Total gain recognized	$ 260

*The additional gain is calculated as follows:

Cost of equipment	$100
Less: Cost of interest in equipment sold	(60)
Remaining cost	40
Less: Cash received in excess of 60% of the equipment's fair value ($360 – $240)	(120)
Negative investment	$ (80)

23. Task Force members noted that specific facts and circumstances may affect gain recognition and that it would be impractical for the Task Force to consider all possible variations of the basic transaction described above.

24. The SEC Observer emphasized that any gain recognition is heavily dependent on a careful analysis of specific facts and circumstances. Gain recognition would not be appropriate if a significant uncertainty exists regarding realization or the enterprise has an actual or implied commitment to support the operations of the new entity in any manner (see, for example, SAB 81).

Exchanges of Real Estate Involving Monetary Consideration (Paragraph 22 of Opinion 29)

25. Statement 66 indicates that the accounting for exchanges of real estate is covered by Opinion 29 and not by Statement 66. However, as discussed above in Issue 8(a), the Task Force reached a consensus that an exchange of nonmonetary assets that would otherwise be based on recorded amounts under paragraph 21 of Opinion 29 but that involves boot should be considered a monetary (rather than nonmonetary) transaction if the boot is at least 25 percent of the fair value of the exchange. As a result, the Task Force reached a different consensus for exchanges of either (a) real estate held for sale in the ordinary course of business for real estate to be sold in the same line of business or (b) real estate not held for sale in the ordinary course of business for similar real estate when the boot is at least 25 percent of the fair value of the exchange. (Those types of exchanges are referred to in Issues 10(a) and 10(b) as exchanges of similar real estate.)

Issue 10(a)—Whether Statement 66 applies to an exchange of similar real estate that is not subject to Opinion 29 because the transaction involves enough boot for the exchange to be considered monetary under the consensus for Issue 8(a).

26. The Task Force reached a consensus that a transaction involving an exchange of similar real estate that is considered a monetary transaction under Issue 8(a) because boot is at least 25 percent of the fair value of the exchange would be allocated between two components: a monetary portion and a nonmonetary portion. [Note: See STATUS section.] The allocation between the monetary and nonmonetary portions of the transaction should be based on their relative fair values at the time of the transaction. A

Task Force member noted that Interpretation 43 provides guidance on when an asset is considered real estate.

Issue 10(b)—If applicable, how Statement 66 should be applied.

27. The Task Force reached a consensus that for the receiver of boot, the monetary portion would be accounted for under Statement 66 as the equivalent of a sale of an interest in the underlying real estate, and the nonmonetary portion would be accounted for based on the recorded amount (after reduction, if appropriate, for an indicated impairment in value) of the nonmonetary asset relinquished pursuant to paragraph 21 of Opinion 29. [Note: See STATUS section.] For the payer of boot, the monetary portion would be accounted for as an acquisition of real estate, and the nonmonetary portion would be accounted for pursuant to paragraph 21 of Opinion 29. Following is an example of the application of this consensus:

Assumptions

- Party A transfers real estate with a fair value of $2,000,000 (Party A’s net book value of $1,500,000) to Party B and receives $400,000 cash, a $400,000 note from Party B payable to Party A, and real estate with a fair value of $1,200,000 (Party B’s net book value of $800,000).
- The initial investment requirement for full accrual profit recognition under Statement 66 is 20 percent.
- The terms of the note from Party B to Party A would satisfy the continuing investment provisions necessary for application of the full accrual method. The interest rate on the note from Party B is a market rate, and the note is considered fully collectible.
- The values of the real estate transferred by both parties are readily determinable and clearly realizable at the exchange date.
- Neither party has any continuing involvement with the real estate transferred to the other.

Computation of Allocation by Both Party A and Party B

Monetary Portion of Transaction:

Total monetary consideration divided by total fair value of exchange	\$800,000 ÷ \$2,000,000 = 40%

For this example, the monetary portion of the transaction is the exchange of \$400,000 cash and a \$400,000 note for real estate with a fair value of \$800,000 (\$2,000,000 × 40%).

Nonmonetary Portion of Transaction:

Fair value of real estate exchanged divided by total fair value of exchange	\$1,200,000 ÷ \$2,000,000 = 60%

For this example, the nonmonetary portion of the transaction is the exchange of real estate with a fair value of \$1,200,000 for similar real estate with a fair value of \$1,200,000 (\$2,000,000 × 60%).

Accounting by Party A (the Receiver of Monetary Consideration)

The monetary portion of the transaction qualifies for full accrual profit recognition because the cash down payment of \$400,000 and the \$400,000 note meet the criteria in paragraphs 9-12 of Statement 66 for a buyer's initial and continuing investment when applied to the monetary portion of the transaction. Accordingly, a gain of \$200,000 (\$800,000 total monetary consideration less \$600,000 [\$1,500,000 total net book value × 40%] pro rata portion of net book value) would be recorded at the date of sale.

The nonmonetary portion of the transaction does not qualify for gain recognition because the exchange involves similar real estate. The accounting basis of the new property equals \$900,000 (\$1,500,000 total net book value of the real estate exchanged less the \$600,000 pro rata portion of net book value sold).

Accounting by Party B (the Payer of Monetary Consideration)

The monetary portion of the transaction represents an acquisition of real estate for the monetary consideration paid of $800,000.

The nonmonetary portion of the transaction does not qualify for gain recognition because the exchange involves similar real estate. The accounting basis of the new property equals $1,600,000 ($800,000 net book value of the real estate exchanged plus $800,000 total monetary consideration paid).

Nonreciprocal Transfers to Owners (Paragraph 23 of Opinion 29)

Spinoffs or Other Distributions of Loans Receivable to Shareholders

28. An enterprise distributes loans receivable to its owners by forming a subsidiary, transferring those loans receivable to the subsidiary, and then distributing the stock of that subsidiary to shareholders of the parent.

Issue 11—Whether the enterprise should report the distribution at book value as a spinoff or at fair value as a dividend-in-kind if the book value of the loans receivable, which may be either the "recorded investment in the receivable" or the "carrying amount of the receivable," is in excess of their fair value, and how the recipient should record the transaction.

29. The Task Force reached a consensus that the distribution should be reported at fair value by the enterprise and the recipient. Task Force members noted that the transaction is not a spinoff because the subsidiary does not constitute a business.[4] Rather, the transaction should be considered a dividend-in-kind. Under paragraph 23 of Opinion 29,

dividends-in-kind are nonreciprocal transfers of nonmonetary assets to owners that should be accounted for at fair value if the fair value of the nonmonetary asset distributed is objectively measurable and would be clearly realizable to the distributing entity in an outright sale at or near the time of distribution. On July 5, 1989, subsequent to the date of the consensus, the SEC staff issued SAB 82, which discusses accounting for transfers of nonperforming assets by financial institutions and disclosure of the impact of financial assistance from regulators. In discussing the value at which a transfer of nonperforming assets should be recorded by the transferor financial institution, SAB 82 makes reference to the Task Force consensus on Issue 10, that an enterprise that distributes loans to its owners should report such distribution at fair value.

Accounting for Reorganizations Involving a Non–Pro Rata Split-off of Certain Nonmonetary Assets to Owners

30. Some believe that paragraph 23 of Opinion 29 requires that nonreciprocal transfers of nonmonetary assets to owners on a non–pro rata basis be accounted for at fair value, without regard to the nature of the nonmonetary assets distributed. Others believe that Opinion 29 requires historical cost accounting for corporate liquidations or reorganizations involving the distribution to owners of all or a significant segment of the business, whether in a spinoff, split-off, or split-up and whether or not the distribution is on a pro rata basis.

31. Although Opinion 29 does not define the term split-off, federal income tax law states that a split-off is a transaction in which a parent company exchanges its stock in a subsidiary for parent company stock held by its shareholders. For federal income tax

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[4]Issue 98-3 provides guidance on determining whether an asset group constitutes a business.

purposes, the exchange of shares need not be pro rata to all shareholders, or even include all shareholders, in order to be considered a tax-free split-off.

Issue 12—Whether a non–pro rata split-off of all or a significant segment of a business in a corporate plan of reorganization should be accounted for at historical cost or at fair value.

32. The Task Force reached a consensus that a non–pro rata split-off of a segment of a business in a corporate plan of reorganization should be accounted for at fair value. The Task Force also reached a consensus that a split-off of a targeted business, distributed on a pro rata basis to the holders of the related targeted stock, should be accounted for at historical cost. The Task Force observed that if the targeted stock was created in contemplation of the subsequent split-off, the two steps (creation of the targeted stock and the split-off) cannot be separated and should be viewed as one transaction with the split-off being accounted for at fair value.

Impairment Considerations

Issue 13(a)—How an indicated impairment should be determined for a productive asset that is exchanged for a similar productive asset or an equivalent interest in the same or similar productive asset under paragraph 21(b) of Opinion 29.

33. Paragraph 21 of Opinion 29 states that for nonmonetary exchanges that are not essentially the culmination of an earnings process, the exchange should be recorded at historical amounts “after reduction, if appropriate, for an indicated impairment of value.” At the May 23, 1996 meeting, the Task Force reached a tentative conclusion that an indicated impairment for a productive asset that is exchanged for a similar productive

asset or an equivalent interest in the same or similar productive asset under paragraph 21(b) of Opinion 29, in a transaction that does not involve any monetary consideration, should be determined based on the recognition and measurement of impairment for that asset in its held and used classification (if the criteria for impairment are met, a full loss would be recognized for the difference between the book value and fair value of the productive asset). The Task Force observed that if the asset exchanged is within the scope of Statement 121, the exchange transaction represents an event or change in circumstance requiring an assessment of impairment in accordance with the provisions of Statement 121 for long-lived assets to be held and used. [Note: This Issue has been resolved by Statement 144. See STATUS section.]

34. At the July 18, 1996 meeting, the Task Force withdrew the tentative conclusion reached at the May 23, 1996 meeting regarding exchanges involving similar productive assets that do not include any monetary consideration because it was not affirmed. The Task Force also discussed the accounting for exchanges of similar productive assets involving securities accounted for by consolidation or by the equity method for investments accounted for by the equity method. The Task Force was not asked to reach a consensus.

35. The Task Force reached a tentative conclusion that an indicated impairment for exchanges of similar productive assets that include more than a *de minimis* amount of boot (but less than 25 percent of the fair value) should be based on the fair value of the assets exchanged.

36. At the September 18–19, 1996 meeting, the Task Force withdrew the tentative conclusion reached at the July 18, 1996 meeting regarding exchanges involving similar productive assets that include boot because it was not affirmed. The Task Force also discussed exchanges of similar productive assets that do not include monetary consideration but did not reach a consensus. The SEC Observer reiterated a comment made at the March 21, 1996 meeting that the SEC staff believes that exchanges of similar productive assets are disposals in accordance with the provisions of Statement 121 and that the assessment of impairment for these transactions should be made based on the fair value of the nonmonetary asset relinquished.

Issue 13(b)—How an indicated impairment should be determined for a nonmonetary asset distributed to owners in a nonreciprocal transfer that is accounted for based on the recorded amount of the nonmonetary asset distributed under paragraph 23 of Opinion 29.

37. Paragraph 23 of Opinion 29 states that a nonreciprocal transfer to owners in a spinoff or other form of reorganization or liquidation should be recorded at historical amounts "after reduction, if appropriate, for an indicated impairment of value." The Task Force discussed how an indicated impairment should be recognized and measured for a nonmonetary asset distributed to owners in a nonreciprocal transfer but was not asked to reach a consensus.

38. The Task Force also discussed the impairment recognition for a pro rata nonreciprocal transfer to owners when the asset transferred is an investment in a business

that is accounted for either by consolidation or by the equity method for investments accounted for by the equity method. The Task Force did not reach a consensus.

39. The Task Force observed that paragraph 23 of Opinion 29 requires that all nonreciprocal transfers of nonmonetary assets to owners other than distributions in a pro rata spinoff of a subsidiary or equity method investee be accounted for at fair value. The Task Force also encouraged the FASB to address the issues covered by this Issue in the Board's current project related to Statement 121 and assets to be disposed of. [Note: This Issue has been resolved by Statement 144. See STATUS section.]

STATUS

40. Related issues were discussed in Issues No. 93-11, "Accounting for Barter Transactions Involving Barter Credits," No. 98-3, "Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business" and No. 99-17, "Accounting for Advertising Barter Transactions."

41. Statement 141(R), which was issued in December 2007, replaces Statement 141 and nullifies Issue 98-3. Paragraph A2(a) of Statement 141(R) clarifies that the exchange of a business for a business is a business combination. Statement 160, which amends ARB 51, was issued in December 2007. It replaces the guidance that was in Statement 141 that required that the acquisition of a noncontrolling interest in a controlled subsidiary be accounted for using the purchase method and requires instead that those transactions be accounted for as equity transactions.

42. This issue was subsequently addressed in Statement 144 which was issued in August 2001 and supersedes Statement 121. If a disposal transaction involves the exchange of a long-lived asset for a similar productive long-lived asset or the distribution of a long-lived asset to owners in a spinoff, Statement 144 requires that an impairment of the asset be determined (a) prior to the disposal date based on its undiscounted cash flows and (b) at the disposal date based on its fair value. Accordingly, Statement 144 resolves Issues 13(a) and 13(b) of Issue 01-2.

43. The second sentence of paragraph 8 in Issue 1(a) is affected by the issuance of SAB 103. SAB 103 deleted the applicable sections of SAB Topic 2.A., which codified SAB 48 and SAB 97, because of the issuance of Statement 141.

44. Statement 153 was issued in December 2004. Statement 153 eliminates the fair value measurement exception for nonmonetary exchanges of similar productive assets provided in Opinion 29 and replaces it with an exception from fair value measurement for nonmonetary exchanges that lack commercial substance. The issuance of Statement 153 nullifies Issues 1(b), 1(c), 2–5, and 7 since those issues interpret the exception to fair value measurement for similar productive assets that was eliminated by Statement 153. Paragraphs 4–9 address issues related to the application of Statement 141 and are not affected by the issuance of Statement 153. Although Issue 1(b) is nullified by the issuance of Statement 153, the SEC Observer comments set forth in paragraph 10 continue to apply. As such, transactions by SEC registrants that involve the exchange of a business for an equity method investment that is not an interest in a joint venture must be accounted for at fair value unless fair value is not determinable within reasonable limits.

45. Issue 6 addresses whether full or partial gain recognition is appropriate in circumstances in which an entity transfers its ownership of a controlled productive asset (or assets) to another entity in exchange for a noncontrolling ownership interest in that entity. Statement 153 amends the scope of Opinion 29 to exclude a transfer of assets to an entity in exchange for an equity interest in that entity. Statement 153 also amends Statement 140 to remove the scope exception in Statement 140 for exchanges of equity method investments for similar productive assets. Accordingly, transfers of equity method investments in exchange for other assets should be accounted for in accordance with Statement 140. However, Opinion 29 (as amended by Statement 153) and Statement 140 do not provide guidance on the accounting for transfers of nonfinancial assets in exchange for other assets. Therefore, the guidance in Issue 6 should continue to be applied in circumstances in which an entity transfers a nonfinancial asset (or assets) to another entity in exchange for a noncontrolling ownership interest in that entity and the exchange is required to be accounted for at fair value.

46. Issues 10(a) and 10(b) previously addressed circumstances in which an entity is involved in a real estate exchange that meet the following conditions: (1) the exchange includes boot that is at least 25 percent of the fair value of the exchange and (2) the exchange is either (a) real estate held for sale in the ordinary course of business for real estate to be sold in the same line of business or (b) real estate not held for sale in the ordinary course of business for similar real estate. Statement 153, however, eliminates the fair value measurement exception for nonmonetary exchanges of similar productive assets provided in Opinion 29 and replaces it with an exception from fair value measurement for nonmonetary exchanges that lack commercial substance. Therefore,

Issues 10(a) and 10(b) address circumstances in which an entity is involved in a real estate exchange that meets the following conditions: (1) the exchange includes boot that is at least 25 percent of the fair value of the exchange and (2) the exchange meets one of the conditions set forth in paragraph 20 of Opinion 29.

47. The issuance of Statement 153 does not affect the consensuses in Issues 8(a), 8(b), 9, 11, and 12.

48. Paragraph 3(d) has been deleted by paragraph A16 of Update 2010-08 to be consistent with paragraph 44 of Statement 19, as amended. This scope exception should have been deleted as an amendment to this Issue under Statement 153.

49. No further EITF discussion is planned.

Exhibit 01-2A

ILLUSTRATION OF THE ACCOUNTING REQUIRED BY OPINION 29 AND ISSUE 01-2 FOR CERTAIN NONMONETARY EXCHANGES

Excluded from the scope of this Issue:

a. Transfers between a joint venture and its owners
b. Contributions of real estate in return for an unconsolidated real estate investment (SOP 78-9)
c. Transfers of real estate in exchange for nonmonetary assets other than real estate (Statement 66), and
d. Exchange of assets used in oil- and gas-producing activities (Statement 19).

		ASSET RECEIVED		
		Investment Accounted for by the Equity Method (Including Joint Ventures)	**Controlled Asset or Group of Assets That Does Not Meet the Definition of a Business**	**Controlled Group of Assets That Meets the Definition of a Business**
ASSET GIVEN UP	**Investment Accounted for by the Equity Method (Including Joint Ventures)**	A transfer of an equity method investment should be accounted for under the provisions of Statement 140.	A transfer of an equity method investment should be accounted for under the provisions of Statement 140.	**Fair value** (Issue 1(a) of Issue 01-2 and Statement 141) **[Note: After the adoption of Statement 141(R) (effective for business combinations with an acquisition date on or after the beginning of the first annual reporting period beginning on or after 12/15/08), the reference to Statement 141 will be replaced by Statement 141(R).]**

Controlled Asset or Group of Assets That <u>Does Not</u> Meet the Definition of a Business	**A consensus was not reached on this circumstance.**	**Carry-over basis if:** <u>(a) The fair value of neither the asset(s) received nor the asset(s) relinquished is determinable within reasonable limits, or</u> <u>(b) Assets exchanged are a product or property held for sale in the ordinary course of business for a product or property to be sold in the same line of business to facilitate sales to customers other than parties to the exchange, or</u> <u>(c) The exchange lacks commercial substance. (See Statement 153).</u> **Otherwise, fair value**	**Fair value** (Issue 1(a) of Issue 01-2 and Statement 141) **[Note: After the adoption of Statement 141(R) (effective for business combinations with an acquisition date on or after the beginning of the first annual reporting period beginning on or after 12/15/08), the reference to Statement 141 will be replaced by Statement 141(R).]**
Controlled Group of Assets That Meets the Definition of a Business	**A consensus was not reached on this circumstance**; however, SEC registrants are required to account for at fair value. **[Note: After the adoption of Statement 160 (effective for fiscal years, and interim periods within those fiscal years, beginning on or after 12/15/08), for all entities that prepare consolidated financial statements (except for not-for-profit organizations), the following sentence is added.]** Also, paragraph 36 of ARB 51, as amended by Statement 160, requires that if a subsidiary is deconsolidated and an investment is retained in that former subsidiary, the retained investment be recognized and measured at fair value.	**A consensus was not reached on this circumstance;** however, SEC registrants are required to account for at fair value unless (a) the fair value is not determinable within reasonable limits or (b) the exchange lacks commercial substance. (See Statement 153.)	**Fair value** (Statement 141, paragraph 10) **[Note: After the adoption of Statement 141(R) (effective for business combinations with an acquisition date on or after the beginning of the first annual reporting period beginning on or after 12/15/08), the reference to Statement 141, paragraph 10, will be replaced by Statement 141(R), paragraph A2(a).]**

Suggested Index Entries for Issue No. 01-2, "Interpretations of APB 29"