



Financial Accounting Standards Board

ORIGINAL PRONOUNCEMENTS

AS AMENDED

Statement of Financial Accounting Standards No. 160

Noncontrolling Interests in
Consolidated Financial Statements

an amendment of ARB No. 51

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Statement of Financial Accounting Standards No. 160 Noncontrolling Interests in Consolidated Financial Statements

an amendment of ARB No. 51

STATUS

Issued: December 2007

Effective Date: For fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008; earlier adoption is prohibited

Affects: Amends ARB 51, paragraphs 1 through 6, 9, 11, 13, 17, 18, and 22 through 24

Deletes ARB 51, paragraphs 10, 14, and 15 and footnote 1a

Adds ARB 51, paragraphs 25 through 39, A1 through A7, and B1

Amends APB 18, paragraphs 4, 19(e), and 19(m) and footnote 3

Deletes APB 29, footnote 7

Amends AIN-APB 18, Interpretation No. 1

Amends FAS 19, paragraphs 59I(a) and 59Z

Amends FAS 60, paragraph 42

Amends FAS 69, paragraphs 14(a), 31, and 40 and footnote † in Illustration 4

Amends FAS 89, paragraphs 96 and 107

Amends FAS 94, paragraph 4

Amends FAS 107, paragraph 8

Amends FAS 109, paragraph 33

Amends FAS 128, paragraphs 9, 15, and 156

Deletes FAS 128, footnote 26

Amends FAS 130, paragraphs 14, 22, and 129

Amends FAS 133, paragraphs 21(c) and 29(f)

Amends FAS 142, paragraph 6

Replaces FAS 142, footnote 5

Deletes FAS 142, paragraph 38

Adds FAS 142, paragraph 39A

Amends FIN 37, paragraph 2

Amends FIN 46(R), paragraph 22

Amends FSP FAS 150-3, paragraph 8

Affected by: Paragraph 2 amended by FAS 164, paragraph E15(a)

Paragraphs C1 and D2 deleted by FAS 164, paragraphs E15(b) and E15(d), respectively

Paragraph C3 amended by Accounting Standards Update 2010-08, paragraph A11

Paragraph D1 amended by FAS 162, paragraph B9

Issues Discussed by FASB Emerging Issues Task Force (EITF)

Affects: Nullifies EITF Issues No. 94-2 and 95-7

Partially nullifies EITF Issues No. 90-5 and 90-13

Modifies EITF Issues 85-21, 86-32, 99-16, 00-4, 00-6, and 01-2 and Topics No. D-41, D-84, and D-97

Interpreted by: No EITF Issues

Related Issues: EITF Issues No. 99-1, 00-19, 08-8, 08-10, and 09-4

SUMMARY

Why Is the FASB Issuing This Statement?

A noncontrolling interest, sometimes called a minority interest, is the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. The objective of this Statement is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards that require:

- The ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent's equity.
- The amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income.
- Changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. A parent's ownership interest in a subsidiary changes if the parent purchases additional ownership interests in its subsidiary or if the parent sells some of its ownership interests in its subsidiary. It also changes if the subsidiary reacquires some of its ownership interests or the subsidiary issues additional ownership interests. All of those transactions are economically similar, and this Statement requires that they be accounted for similarly, as equity transactions.
- When a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value. The gain or loss on the deconsolidation of the subsidiary is measured using the fair value of any noncontrolling equity investment rather than the carrying amount of that retained investment.
- Entities provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners.

What Is the Scope of This Statement?

This Statement applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. Not-for-profit organizations should continue to apply the guidance in Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, before the amendments made by this Statement, and any other applicable standards, until the Board issues interpretative guidance.

How Will This Statement Improve Current Accounting Practice?

This Statement amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. Before this Statement was issued, limited guidance existed for reporting noncontrolling interests. As a result, considerable diversity in practice existed. So-called minority interests were reported in the consolidated statement of financial position as liabilities or in the mezzanine section between liabilities and equity. This Statement improves comparability by eliminating that diversity.

This Statement changes the way the consolidated income statement is presented. It requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. Previously, net income attributable to the noncontrolling interest generally was reported as an expense or other deduction in arriving at consolidated net income. It also was often presented in combination with other financial statement amounts. Thus, this Statement results in more transparent reporting of the net income attributable to the noncontrolling interest.

This Statement establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation. For example, a parent's ownership interest in its subsidiary changes if the parent purchases additional ownership interests in its subsidiary or the parent sells some of its ownership interests in its subsidiary. It also changes if the subsidiary reacquires some of its ownership interests or the subsidiary issues additional ownership interests. This Statement clarifies that all of those transactions are equity transactions if the parent retains its controlling financial interest in the subsidiary. Before this Statement was issued, decreases in a parent's ownership interest in a subsidiary could be accounted for in one of two ways: as equity transactions or as transactions with gain or loss recognition in the income statement. A parent's acquisition of noncontrolling ownership interests in a subsidiary was previously accounted for by the purchase method. This Statement simplifies accounting standards by establishing a single method of accounting for those economically similar transactions. Eliminating the requirement to apply purchase accounting to a parent's acquisition of noncontrolling ownership interests in a subsidiary also reduces the parent's costs because it eliminates the need to value the assets and liabilities of the subsidiary on the date that each additional interest is acquired.

This Statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. A parent deconsolidates a subsidiary as of the date the parent ceases to have a controlling financial interest in the subsidiary. If a parent retains a noncontrolling equity investment in the former subsidiary, that investment is measured at its fair value. The gain or loss on the deconsolidation of the subsidiary is measured using the fair value of the noncontrolling equity investment. Previously, the carrying amount of any retained investment was not remeasured and was used in determining any gain or loss on the deconsolidation of the subsidiary. Recognizing a retained investment in a former subsidiary at fair value provides more relevant information about the value of that investment on the date that the subsidiary is deconsolidated. Remeasuring any retained investment to fair value also is consistent with the requirements in FASB Statement No. 141 (revised 2007), *Business Combinations*, for remeasuring any previously held equity interest in an entity if the acquirer obtains control of that entity in a business combination achieved in stages (a step acquisition).

This Statement requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent's owners and the interests of the noncontrolling owners of a subsidiary. Those expanded disclosures include a reconciliation of the beginning and ending balances of the equity attributable to the parent and the noncontrolling owners and a schedule showing the effects of changes in a parent's ownership interest in a subsidiary on the equity attributable to the parent. This Statement therefore improves the completeness, relevance, and transparency of the information provided in the consolidated financial statements.

This Statement does not change ARB 51's provisions related to consolidation purpose or consolidation policy or the requirement that a parent consolidate all entities in which it has a controlling financial interest. This Statement does, however, amend certain of ARB 51's consolidation procedures to make them consistent with the requirements of Statement 141(R). It also amends ARB 51 to provide definitions for certain terms and to clarify some terminology. This Statement does not change the requirements in FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*.

In addition to the amendments to ARB 51, this Statement amends FASB Statement No. 128, *Earnings per Share*, so that earnings-per-share data will continue to be calculated the same way those data were calculated before this Statement was issued. That is, the calculation of earnings-per-share amounts in consolidated financial statements will continue to be based on amounts attributable to the parent.

What Is the Impact of This Statement on Convergence with International Financial Reporting Standards?

This Statement, together with the IASB's Amendments to IAS 27, *Consolidated and Separate Financial Statements*, concludes a joint effort by the Board and the IASB to improve the accounting for and reporting of noncontrolling interests in consolidated financial statements while promoting the international convergence of accounting standards.

This Statement aligns the reporting of noncontrolling interests in subsidiaries with the requirements in IAS 27. Previously, entities applying international financial reporting standards (IFRSs) reported noncontrolling interests as equity, while entities applying U.S. generally accepted accounting principles (GAAP) reported those interests as liabilities or in the mezzanine section between liabilities and equity. This Statement and IFRSs also provide similar guidance for accounting for changes in a parent's ownership interest and deconsolidation of a subsidiary and similar disclosure requirements. Thus, the issuance of this Statement eliminates a source of noncomparable financial reporting.

What Is the Effective Date of This Statement?

This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (that is, January 1, 2009, for entities with calendar year-ends). Earlier adoption is prohibited. The effective date of this Statement is the same as that of the related Statement 141(R).

This Statement shall be applied prospectively as of the beginning of the fiscal year in which this Statement is initially applied, except for the presentation and disclosure requirements. The presentation and disclosure requirements shall be applied retrospectively for all periods presented.

Statement of Financial Accounting Standards No. 160

Noncontrolling Interests in Consolidated Financial Statements

an amendment of ARB No. 51

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OBJECTIVE

1. The objective of this Statement is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING**Scope**

2. This Statement applies to all entities that prepare consolidated financial statements, except not-for-profit organizations. Not-for-profit organizations shall continue to apply the guidance in Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, before the amendments made by this Statement, and any other applicable standards, until the Board issues interpretative guidance.

[Note: After the effective date of the application of the amendments made by Statement 160 to ARB 51 and other pronouncements by not-for-profit entities (prospectively in the first set of initial or annual financial statements for a reporting period beginning on or after December 15, 2009), paragraph 2 should read as follows:]

2. This Statement applies to all entities that prepare consolidated financial statements.

Amendments to ARB 51

3. This Statement amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also amends certain of ARB 51's consolidation procedures for consistency with the requirements of FASB Statement No. 141 (revised 2007), *Business Combinations*. Appendix A includes the amendments to ARB 51.

Effective Date and Transition

4. This Statement shall be effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited.

5. This Statement shall be applied prospectively as of the beginning of the fiscal year in which this Statement is initially adopted, except for the presentation and disclosure requirements. The presentation and disclosure requirements shall be applied retrospectively for all periods presented, as follows:

- a. The noncontrolling interest shall be reclassified to equity in accordance with paragraph 26 of ARB 51, as amended by this Statement.
- b. Consolidated net income shall be adjusted to include the net income attributed to the noncontrolling interest.
- c. Consolidated comprehensive income shall be adjusted to include the comprehensive income attributed to the noncontrolling interest.
- d. The disclosures in paragraphs 38 and 39 of ARB 51, as amended by this Statement, shall be provided.

6. Paragraph 31 of ARB 51, as amended by this Statement, requires that the noncontrolling interest continue to be attributed its share of losses even if that attribution results in a deficit noncontrolling interest balance. In contrast, paragraph 15 of ARB 51, before the amendments made by this Statement, required:

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. However, if future earnings do materialize, the majority interest should be credited to the extent of such losses previously absorbed.

If, in the year of adoption, an entity's consolidated net income attributable to the parent would have been significantly different had the previous requirement in paragraph 15 of ARB 51 been applied, the entity shall disclose pro forma consolidated net income attributable to the parent and pro forma earnings per share as if the previous requirement in paragraph 15 of ARB 51 had been applied in the year of adoption.

**The provisions of this Statement need
not be applied to immaterial items.**

This Statement was adopted by the affirmative vote of five members of the Financial Accounting Standards Board. Ms. Seidman dissented; Mr. Smith abstained.

Ms. Seidman dissents from the issuance of this Statement because she believes that the accounting for noncontrolling interests in subsidiaries is integrally related to other conceptual issues that are under active discussion by the Board, and she believes it is premature to significantly change the accounting for transactions involving noncontrolling interests before it is relatively clear under those evolving concepts that noncontrolling interests would be considered equity of the consolidated group.

Ms. Seidman agrees that the equity of a consolidated subsidiary does not meet the definition of a liability under the current conceptual framework. However, Ms. Seidman believes that the equity of the subsidiary is different from the parent shareholders' residual interest in the parent. That is, the equity of a subsidiary that is held by the noncontrolling interest is not available to absorb losses or share in gains related to other activities of the parent. Therefore, it is debatable whether transactions involving the noncontrolling interest should be treated in the same manner as transactions involving shares of the parent.

That debate is currently taking place as part of the objectives of financial reporting and reporting entity phases of the Boards' conceptual framework project. Those phases address the related questions of who are the primary users of financial reports and what is a reporting entity. Ms. Seidman believes that those concepts should be compatible with the definitions of liabilities and equity, which also are currently being reconsidered. At the standards level, the FASB is about to issue its preliminary views on the distinction between liabilities and equity. The Board's preliminary view is that the most subordinated interests (for example, common stock) would be considered equity; all other interests would be considered liabilities. That approach would entail a change to the con-

ceptual definitions of liabilities and equity and, depending on the concept that is ultimately expressed, it is not clear to Ms. Seidman that noncontrolling interests in a subsidiary would be considered equity of the consolidated entity. For example, from the perspective of the consolidated entity, the noncontrolling shareholders of the subsidiary would not absorb losses relating to other activities of the parent and thus would be higher in standing than the residual claim of shareholders of the parent entity. If the concept of equity is based on the most subordinated interest in the entity, noncontrolling interests in the subsidiary would seem to be liabilities from the consolidated perspective.

Ms. Seidman would have been willing to characterize noncontrolling interests as a form of equity that is different from the equity of the parent, but she would have preferred to defer the changes that result from full adoption of the economic unit perspective (rather than the parent company perspective) in the accounting for transactions involving the noncontrolling shareholders until the relevant phases of the conceptual framework projects were closer to conclusion.

Ms. Seidman disagrees with the requirement of this Statement that upon deconsolidation of a subsidiary, any retained investment is remeasured to its fair value and a gain or loss is recognized in earnings, because that investment was not part of the exchange. Ms. Seidman agrees that ceasing to have a controlling financial interest in a subsidiary is a significant economic event. However, the retained investment has not been sold. Under current accounting standards, gains and losses on cost method, available-for-sale, and equity method investments are only recognized in earnings when the investment is sold (other than impairment). Ms. Seidman would have recognized the effect of those remeasurements as a separate component of other comprehensive income instead of current period earnings.

Members of the Financial Accounting Standards Board:

Robert H. Herz,
Chairman
George J. Batavick

G. Michael Crooch
Thomas J. Linsmeier
Leslie F. Seidman

Lawrence W. Smith
Donald M. Young

Appendix A

ARB 51, AS AMENDED BY THIS STATEMENT

A1. This appendix contains the amendments to ARB No. 51, *Consolidated Financial Statements*. [Added text is underlined and deleted text is ~~struck out~~.]

Accounting Research Bulletin No. 51

Consolidated Financial Statements

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Accounting Research Bulletin No. 51

Consolidated Financial Statements

PURPOSE OF CONSOLIDATED
FINANCIAL STATEMENTS

1. The purpose of consolidated financial statements is to present, primarily for the benefit of the owners ~~shareholders~~ and creditors of the parent ~~parent company~~, the results of operations and the financial position of a parent ~~company~~ and all its subsidiaries ~~subsidiaries essentially as if the consolidated 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 financial statements and that they are usually necessary for a fair presentation when one of the entities ~~companies~~ in the consolidated group directly or indirectly has a controlling financial interest in the other entities ~~companies~~.

CONSOLIDATION POLICY

2. The usual condition for a controlling financial interest is ownership of a majority voting interest, and, therefore, as a general rule ownership by one entity ~~company~~, directly or indirectly, of more than 50 ~~over fifty~~ per cent of the outstanding voting shares of another entity ~~company~~ is a condition pointing toward

consolidation. However, there are exceptions to this general rule. A majority-owned entity~~subsidiary~~ shall not be consolidated if control does not rest with the majority owner (as, for instance, if the entity~~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 on the parent's ability to control the entity~~subsidiary~~).

3. All majority-owned~~subsidiaries~~—that is, all enti-~~ties~~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 para-~~graph 2.~~^a

4. 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, financial statements for a period ~~that~~ which 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 financial statements for its fiscal period; when this is done, recognition should be given by disclosure or otherwise to the effect of intervening events ~~that~~ which materially affect the financial position or results of operations.

5. Consolidated financial statements shall~~should~~ disclose the consolidation policy ~~that~~ which is being followed. In most cases this can be made apparent by the headings or other information in the financial statements, but in other cases a footnote is required.

CONSOLIDATION PROCEDURE GENERALLY

6. In the preparation of consolidated financial statements, intercompany balances and transactions shall~~should~~ be eliminated. This includes intercompany open account balances, security holdings, sales and purchases, interest, dividends, etc. As consoli-

dated 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 entities~~companies~~ in the consolidated group. Accordingly, any intercompany income~~profit~~ or loss on assets remaining within the consolidated group shall~~should~~ be eliminated; the concept usually applied for this purpose is gross profit or loss. (See ~~also~~ paragraph 17-)

ELIMINATION OF INTERCOMPANY INVESTMENTS

7-8. [These paragraphs have been deleted. See Status page.]

9. The retained earnings~~earned surplus~~ or deficit of a purchased subsidiary at the date of acquisition by the parent shall~~should~~ not be included in consolidated retained earnings~~earned surplus~~.

10. [This paragraph has been deleted. See Status page.] ~~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 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.^{1a} 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~~

^aNot-for-profit organizations shall continue to apply ARB 51 as it was before the amendments made by this Statement until the Board issues interpretative guidance. In addition, AICPA Statement of Position 94-3, *Reporting of Related Entities by Not-for-Profit Organizations*, and the AICPA Audit and Accounting Guide, *Health Care Organizations*, also provide guidance on the application of consolidation policy by not-for-profit organizations.

^{1a}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.

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.

11. When a subsidiary is initially consolidated purchased during the year, the consolidated financial statements shall include the subsidiary's revenues, expenses, gains, and losses only from the date the subsidiary is initially consolidated. ~~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.~~

12. [This paragraph has been deleted. See Status page.]

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

MINORITY INTERESTS

14. [This paragraph has been deleted. See paragraph 28 and Status page.] The amount of intercompany profit or loss to be eliminated in accordance with paragraph 6 is not affected by the existence of a minority interest. The complete elimination of the intercompany profit or loss is consistent with the underlying assumption that consolidated statements represent the financial position and operating results of a single business enterprise. The elimination of the intercompany profit or loss may be allocated proportionately between the majority and minority interest.

15. [This paragraph has been deleted. See paragraph 31 and Status page.] 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. However, if future earnings do materialize, the majority interest should be credited to the extent of such losses previously absorbed.

INCOME TAXES

16. [This paragraph has been deleted. See Status page.]

17. If income taxes have been paid on intercompany profits on assets remaining within the consolidated group, those such taxes shall should be deferred or the intercompany profits to be eliminated in consolidation shall should be appropriately reduced.

STOCK DIVIDENDS OF SUBSIDIARIES

18. Occasionally, subsidiaries subsidiary companies capitalize retained earnings earned surplus 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 owners shareholders of, or capitalized by, the parent company.

UNCONSOLIDATED SUBSIDIARIES IN CONSOLIDATED STATEMENTS

19–21. [These paragraphs have been deleted. See Status page.]

COMBINED FINANCIAL STATEMENTS

22. To justify the preparation of consolidated financial statements, the controlling financial interest should rest directly or indirectly in one of the entities companies included in the consolidation. There are circumstances, however, where combined financial statements combined financial statements (as distinguished from consolidated financial statements) of commonly controlled companies are likely to be more meaningful than their separate financial statements. For example, combined financial statements

would be useful where one individual owns a controlling financial interest in several entities or 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 might also be used to combine the financial statements of present the financial position and the results of operations of entities or companies under common management.

23. Where combined financial statements are prepared for a group of related entities or companies, such as a group of unconsolidated subsidiaries or a group of commonly controlled entities or companies, inter-company transactions and profits or losses shall be eliminated, and if there are problems in connection with such matters as noncontrolling interests, minority interests, foreign operations, different fiscal periods, or income taxes, they shall be treated in the same manner as in consolidated financial statements.

PARENT-COMPANY FINANCIAL STATEMENTS

24. In some cases parent-company financial statements may be needed, in addition to consolidated financial statements, to indicate adequately the position of bondholders and other creditors or preferred shareholders or stockholders of the parent. Consolidating financial 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, consolidated financial statements are the general-purpose financial statements of a parent having one or more subsidiaries; thus, parent-company financial statements are not a valid substitute for consolidated financial statements.

NONCONTROLLING INTEREST IN A SUBSIDIARY

Nature and Classification of the Noncontrolling Interest in the Consolidated Statement of Financial Position

25. A noncontrolling interest is the portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent. A noncontrolling interest is sometimes called a minority interest. For example,

80 percent of a subsidiary's ownership (equity) interests are held by the subsidiary's parent, and 20 percent of a subsidiary's ownership interests are held by other owners. The ownership interests in the subsidiary that are held by owners other than the parent is a noncontrolling interest. The noncontrolling interest in a subsidiary is part of the equity of the consolidated group.

26. The noncontrolling interest shall be reported in the consolidated statement of financial position within equity, separately from the parent's equity. That amount shall be clearly identified and labeled, for example, as *noncontrolling interest in subsidiaries* (paragraph A3). An entity with noncontrolling interests in more than one subsidiary may present those interests in aggregate in the consolidated financial statements.

27. Only a financial instrument issued by a subsidiary that is classified as equity in the subsidiary's financial statements can be a noncontrolling interest in the consolidated financial statements. A financial instrument issued by a subsidiary that is classified as a liability in the subsidiary's financial statements based on the guidance in other standards is not a noncontrolling interest because it is not an ownership interest. Examples of other standards that provide guidance for classifying a financial instrument issued by a subsidiary are:

- a. FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*
- b. FASB Staff Position FAS 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"
- c. SEC Accounting Series Release No. 268, *Presentation in Financial Statements of "Redeemable Preferred Stocks."*

Attributing Net Income and Comprehensive Income to the Parent and the Noncontrolling Interest

28. The amount of intercompany income or profit or loss to be eliminated in accordance with paragraph 6 is not affected by the existence of a noncontrolling minority interest. The complete elimination of the intercompany income or 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 income ~~profit~~ or loss may be allocated ~~proportionately~~ between the ~~parent~~ majority and noncontrolling ~~minority~~ interests. [This paragraph has been moved from paragraph 14.]

29. Revenues, expenses, gains, losses, net income or loss, and other comprehensive income shall be reported in the consolidated financial statements at the consolidated amounts, which include the amounts attributable to the owners of the parent and the noncontrolling interest.

30. Net income or loss and *comprehensive income* or loss, as described in paragraph 10 of FASB Statement No. 130, *Reporting Comprehensive Income*, shall be attributed to the parent and the noncontrolling interest.

31. Losses attributable to the parent and the noncontrolling interest in a subsidiary may exceed their interests in the subsidiary's equity. The excess, and any further losses attributable to the parent and the noncontrolling interest, shall be attributed to those interests. That is, the noncontrolling interest shall continue to be attributed its share of losses even if that attribution results in a deficit noncontrolling interest balance.

Changes in a Parent's Ownership Interest in a Subsidiary

32. A parent's ownership interest in a subsidiary might change while the parent retains its controlling financial interest in the subsidiary. For example, a parent's ownership interest in a subsidiary might change if (a) the parent purchases additional ownership interests in its subsidiary, (b) the parent sells some of its ownership interests in its subsidiary, (c) the subsidiary reacquires some of its ownership interests, or (d) the subsidiary issues additional ownership interests.

33. Changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary 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 or comprehensive income. The carrying amount of the noncontrolling interest shall be adjusted to reflect the change in its ownership interest in

the subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted shall be recognized in equity attributable to the parent.

Example 1

Subsidiary A has 10,000 shares of common stock outstanding, all of which are owned by its parent, ABC Co. The carrying amount of Subsidiary A's equity is \$200,000. ABC Co. sells 2,000 of its shares in Subsidiary A to an unrelated entity for \$50,000 in cash, reducing its ownership interest from 100 percent to 80 percent. That transaction is accounted for by recognizing a noncontrolling interest in the amount of \$40,000 ($\$200,000 \times 20$ percent). The \$10,000 excess of the cash received (\$50,000) over the adjustment to the carrying amount of the noncontrolling interest (\$40,000) is recognized as an increase in additional paid-in capital attributable to ABC Co.

Example 2

Subsidiary A has 10,000 shares of common stock outstanding. Of those shares, 9,000 are owned by its parent, ABC Co., and 1,000 are owned by other shareholders (a noncontrolling interest in Subsidiary A). The carrying amount of Subsidiary A's equity is \$300,000. Of that amount, \$270,000 is attributable to ABC Co., and \$30,000 is a noncontrolling interest in Subsidiary A. Subsidiary A issues 2,000 previously unissued shares to a third party for \$120,000 in cash, reducing ABC Co.'s ownership interest in Subsidiary A from 90 percent to 75 percent (9,000 shares owned by ABC Co. ÷ 12,000 issued shares).

Even though the percentage of ABC Co.'s ownership interest in Subsidiary A is reduced when Subsidiary A issues shares to the third party, ABC Co.'s investment in Subsidiary A increases to \$315,000, calculated as 75 percent of Subsidiary A's equity of \$420,000 ($\$300,000 + \$120,000$). Therefore, ABC Co. recognizes a \$45,000 increase in its investment in Subsidiary A ($\$315,000 - \$270,000$).

and a corresponding increase in its additional paid-in capital (that is, the additional paid-in capital attributable to ABC Co.). In addition, the noncontrolling interest is increased to \$105,000, calculated as 25 percent of \$420,000.

34. A change in a parent's ownership interest might occur in a subsidiary that has accumulated other comprehensive income. If that is the case, the carrying amount of accumulated other comprehensive income shall be adjusted to reflect the change in the ownership interest in the subsidiary through a corresponding charge or credit to equity attributable to the parent.

Example 3

Subsidiary A has 10,000 shares of common stock outstanding. Of those shares, 8,000 are owned by its parent, ABC Co., and 2,000 are owned by other shareholders (a noncontrolling interest in Subsidiary A). The carrying amount of the noncontrolling interest is \$48,000, which includes \$4,000 of accumulated other comprehensive income. ABC Co. pays \$30,000 in cash to purchase 1,000 shares held by the noncontrolling shareholders (50 percent of the noncontrolling interest), increasing its ownership interest from 80 percent to 90 percent. That transaction is recognized by reducing the carrying amount of the noncontrolling interest by \$24,000 ($\$48,000 \times 50$ percent). The \$6,000 excess of the cash paid (\$30,000) over the adjustment to the carrying amount of the noncontrolling interest (\$24,000) is recognized as a decrease in additional paid-in capital attributable to ABC Co. In addition, ABC Co.'s share of accumulated other comprehensive income is increased by \$2,000 ($\$4,000 \times 50$ percent) through a corresponding decrease in additional paid-in capital attributable to ABC Co.

DECONSOLIDATION OF A SUBSIDIARY

35. A parent shall deconsolidate a subsidiary as of the date the parent ceases to have a controlling finan-

cial interest in the subsidiary. Examples of events that result in deconsolidation of a subsidiary are:

- a. A parent sells all or part of its ownership interest in its subsidiary, and as a result, the parent no longer has a controlling financial interest in the subsidiary.
- b. The expiration of a contractual agreement that gave control of the subsidiary to the parent.
- c. The subsidiary issues shares, which reduces the parent's ownership interest in the subsidiary so that the parent no longer has a controlling financial interest in the subsidiary.
- d. The subsidiary becomes subject to the control of a government, court, administrator, or regulator.

36. If a parent deconsolidates a subsidiary through a nonreciprocal transfer to owners, such as a spinoff, the accounting guidance in APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, applies. Otherwise, a parent shall account for the deconsolidation of a subsidiary by recognizing a gain or loss in net income attributable to the parent, measured as the difference between:

- a. The aggregate of:
 - (1) The fair value of any consideration received
 - (2) The fair value of any retained noncontrolling investment in the former subsidiary at the date the subsidiary is deconsolidated
 - (3) The carrying amount of any noncontrolling interest in the former subsidiary (including any accumulated other comprehensive income attributable to the noncontrolling interest) at the date the subsidiary is deconsolidated
- b. The carrying amount of the former subsidiary's assets and liabilities.

37. A parent may cease to have a controlling financial interest in a subsidiary through two or more arrangements (transactions). Circumstances sometimes indicate that the multiple arrangements should be accounted for as a single transaction. In determining whether to account for the arrangements as a single transaction, a parent shall consider all of the terms and conditions of the arrangements and their economic effects. One or more of the following may indicate that the parent should account for the multiple arrangements as a single transaction:

- a. They are entered into at the same time or in contemplation of one another.

- b. They form a single transaction designed to achieve an overall commercial effect.
- c. The occurrence of one arrangement is dependent on the occurrence of at least one other arrangement.
- d. One arrangement considered on its own is 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.
- c. Either in the consolidated statement of changes in equity, if presented, or in the notes to consolidated financial statements, a reconciliation at the beginning and the end of the period of the carrying amount of total equity (net assets), equity (net assets) attributable to the parent, and equity (net assets) attributable to the noncontrolling interest. That reconciliation shall separately disclose (paragraph A6):
- (1) Net income
 - (2) Transactions with owners acting in their capacity as owners, showing separately contributions from and distributions to owners
 - (3) Each component of other comprehensive income.

DISCLOSURES

38. A parent with one or more less-than-wholly-owned subsidiaries shall disclose for each reporting period:

- 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 parent and the noncontrolling interest (paragraphs A4 and A5).
- b. Either in the notes or on the face of the consolidated income statement, amounts attributable to the parent for the following, if reported in the consolidated financial statements (paragraph A4):
 - (1) Income from continuing operations
 - (2) Discontinued operations
 - (3) Extraordinary items.

- d. In notes to the consolidated financial statements, a separate schedule that shows the effects of any changes in a parent's ownership interest in a subsidiary on the equity attributable to the parent (paragraph A7).

39. If a subsidiary is deconsolidated, the parent shall disclose:

- a. The amount of any gain or loss recognized in accordance with paragraph 36
- b. The portion of any gain or loss related to the remeasurement of any retained investment in the former subsidiary to its fair value
- c. The caption in the income statement in which the gain or loss is recognized unless separately presented on the face of the income statement.

Appendix A

IMPLEMENTATION GUIDANCE

CONTENTS

	<u>Paragraph Numbers</u>
<u>Introduction</u>	<u>A1</u>
<u>Illustrations of the Presentation and Disclosure Requirements for a Parent with One or More Less-Than-Wholly-Owned Subsidiaries</u>	<u>A2–A7</u>
<u>Consolidated Statement of Financial Position</u>	<u>A3</u>
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<u>Additional Disclosure If a Parent's Ownership Interest in a Subsidiary Changes during the Period</u>	<u>A7</u>

[This Statement amends ARB 51 to add the guidance in this appendix, but it is not shown as underlined text for ease of readability.]

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 ARB, as amended by FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*. The examples do not address all possible situations or applications of this ARB.

Illustrations of the Presentation and Disclosure Requirements for a Parent with One or More Less-Than-Wholly-Owned Subsidiaries

A2. The examples are based on the following assumptions:

Assumptions for all years

- a. ABC Co. has one subsidiary, Subsidiary A.
- b. The tax rate for all years is 40 percent.
- c. ABC Co. has 200,000 shares of common stock outstanding and pays dividends of \$10,000 each year on those common shares. ABC Co. has no potentially dilutive shares.
- d. Subsidiary A has 10,000 shares of common stock outstanding and does not pay dividends.

Assumptions for 20X1

- e. ABC Co. owns all 10,000 shares in Subsidiary A for the entire year.
- f. On June 30, 20X1, Subsidiary A purchases a portfolio of securities for \$100,000 and classifies those securities as available for sale. On December 31, 20X1, the carrying amount of the available-for-sale securities is \$105,000.
- g. For the year ended December 31, 20X1, the amount of Subsidiary A's net income included in the consolidated financial statements is \$24,000.

Assumptions for 20X2

- h. On January 1, 20X2, ABC Co. sells 2,000 of its shares in Subsidiary A to an unrelated entity for \$50,000 in cash, reducing its ownership interest from 100 percent to 80 percent. Immediately before the sale, Subsidiary A's equity was as follows:

	Subsidiary A
Common stock	\$ 25,000
Paid-in capital	50,000
Retained earnings	125,000
Accumulated other comprehensive income	5,000
Total equity	\$ 205,000

The sale of Subsidiary A's shares by ABC Co. is accounted for as an equity transaction in the consolidated financial statements, as follows:

- (1) A noncontrolling interest is recognized in the amount of \$41,000 ($\$205,000 \times 20$ percent).
- (2) Additional paid-in capital attributable to ABC Co. is increased by \$9,000, calculated as the difference between the cash received (\$50,000) and the carrying amount of the noncontrolling interest (\$41,000).

- (3) Additional paid-in capital attributable to ABC Co. is also increased by \$1,000, which represents the carrying amount of Subsidiary A's accumulated other comprehensive income related to the ownership interest sold to the noncontrolling interest ($\$5,000 \times 20$ percent = \$1,000). Accumulated other comprehensive income attributable to ABC Co. is decreased by a corresponding amount.
- (4) The journal entry to record the sale of Subsidiary A's shares to the noncontrolling shareholders is as follows:

Cash	50,000
Accumulated other comprehensive income (ABC Co.)	1,000
Noncontrolling interest	41,000
Additional paid-in capital (ABC Co.)	10,000

- i. For the year ended December 31, 20X2, the amount of Subsidiary A's net income included in the consolidated financial statements is \$20,000.

Assumptions for 20X3

- j. On January 1, 20X3, ABC Co. purchases 1,000 shares in Subsidiary A from the noncontrolling shareholders (50 percent of the noncontrolling interest) for \$30,000 for cash, increasing its ownership interest from 80 percent to 90 percent. Immediately before that purchase, the carrying amount of the noncontrolling interest in Subsidiary A was \$48,000, which included \$4,000 in accumulated other comprehensive income. The purchase of shares from the noncontrolling shareholders is accounted for as an equity transaction in the consolidated financial statements, as follows:

- (1) The noncontrolling interest balance is reduced by \$24,000 ($\$48,000 \times 50$ percent interest acquired by ABC Co.).
- (2) Additional paid-in capital of ABC Co. is decreased by \$6,000, calculated as the difference between the cash paid (\$30,000) and the adjustment to the carrying amount of the noncontrolling interest (\$24,000).
- (3) Additional paid-in capital of ABC Co. is also decreased by \$2,000, which represents the carrying amount of Subsidiary A's accumulated other comprehensive income related to the ownership interest purchased from the noncontrolling shareholders ($\$4,000 \times 50$ percent = \$2,000). Accumulated comprehensive income attributable to ABC Co. is increased by a corresponding amount.
- (4) The journal entry to record that purchase of Subsidiary A's shares from the noncontrolling shareholders is as follows:

Noncontrolling interest	24,000
Additional paid-in capital (ABC Co.)	8,000
Accumulated other comprehensive income (ABC Co.)	2,000
Cash	30,000

- k. For the year ended December 31, 20X3, the amount of Subsidiary A's net income included in the consolidated financial statements is \$15,000.

**Noncontrolling Interests in Consolidated
Financial Statements**

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Consolidated Statement of Financial Position

A3. This consolidated statement of financial position illustrates the requirement in paragraph 26 that ABC Co. present the noncontrolling interest in the consolidated statement of financial position within equity, but separately from the parent's equity.

**ABC Co.
Consolidated Statement of Financial Position
As of December 31**

	<u>20X3</u>	<u>20X2</u>
Assets:		
Cash	\$ 570,000	\$ 475,000
Accounts receivable	125,000	110,000
Available-for-sale securities	125,000	120,000
Plant and equipment	<u>220,000</u>	<u>235,000</u>
Total assets	<u>\$ 1,040,000</u>	<u>\$ 940,000</u>
Liabilities:		
Total liabilities	<u>\$ 555,000</u>	<u>\$ 459,000</u>
Equity:		
ABC Co. shareholders' equity:		
Common stock, \$1 par	200,000	200,000
Paid-in capital	42,000	50,000
Retained earnings	194,500	167,000
Accumulated other comprehensive income	<u>22,500</u>	<u>16,000</u>
Total ABC Co. shareholders' equity	<u>459,000</u>	<u>433,000</u>
Noncontrolling interest	<u>26,000</u>	<u>48,000</u>
Total equity	<u>485,000</u>	<u>481,000</u>
Total liabilities and equity	<u>\$ 1,040,000</u>	<u>\$ 940,000</u>

Consolidated Statement of Income

A4. This consolidated statement of income illustrates the requirements in paragraph 38(a) that the amounts of consolidated net income and the net income attributable to ABC Co. and the noncontrolling interest be presented separately on the face of the consolidated income statement. It also illustrates the requirement in paragraph 38(b) that the amounts of income from continuing operations and discontinued operations attributable to ABC Co. should be disclosed.

ABC Co.
Consolidated Statement of Income
Year Ended December 31

	<u>20X3</u>	<u>20X2</u>	<u>20X1</u>
Revenues	\$ 395,000	\$ 360,000	\$ 320,000
Expenses	<u>(330,000)</u>	<u>(305,000)</u>	<u>(270,000)</u>
Income from continuing operations, before tax	65,000	55,000	50,000
Income tax expense	<u>(26,000)</u>	<u>(22,000)</u>	<u>(20,000)</u>
Income from continuing operations, net of tax	39,000	33,000	30,000
Discontinued operations, net of tax	<u>-</u>	<u>(7,000)</u>	<u>-</u>
Net income	39,000	26,000	30,000
Less: Net income attributable to the noncontrolling interest	<u>(1,500)</u>	<u>(4,000)</u>	<u>-</u>
Net income attributable to ABC Co.	<u>\$ 37,500</u>	<u>\$ 22,000</u>	<u>\$ 30,000</u>
Earnings per share—basic and diluted:			
Income from continuing operations attributable to ABC Co. common shareholders	\$ 0.19	\$ 0.14	\$ 0.15
Discontinued operations attributable to ABC Co. common shareholders	<u>-</u>	<u>(0.03)</u>	<u>-</u>
Net income attributable to ABC Co. common shareholders	<u>\$ 0.19</u>	<u>\$ 0.11</u>	<u>\$ 0.15</u>
Weighted-average shares outstanding, basic and diluted	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>
Amounts attributable to ABC Co. common shareholders:			
Income from continuing operations, net of tax	\$ 37,500	\$ 27,600	\$ 30,000
Discontinued operations, net of tax	<u>-</u>	<u>(5,600)</u>	<u>-</u>
Net income	<u>\$ 37,500</u>	<u>\$ 22,000</u>	<u>\$ 30,000</u>

Consolidated Statement of Comprehensive Income

A5. This statement of consolidated comprehensive income illustrates the requirements in paragraph 38(a) that the amounts of consolidated comprehensive income and comprehensive income attributable to ABC Co. and the noncontrolling interest be presented separately on the face of the consolidated statement in which comprehensive income is presented.

ABC Co.			
Statement of Consolidated Comprehensive Income			
Year Ended December 31			
	<u>20X3</u>	<u>20X2</u>	<u>20X1</u>
Net income	\$ 39,000	\$ 26,000	\$ 30,000
Other comprehensive income, net of tax:			
Unrealized holding gain on available-for-sale securities, net of tax	5,000	15,000	5,000
Total other comprehensive income, net of tax	<u>5,000</u>	<u>15,000</u>	<u>5,000</u>
Comprehensive income	44,000	41,000	35,000
Comprehensive income attributable to the noncontrolling interest	<u>(2,000)</u>	<u>(7,000)</u>	<u>-</u>
Comprehensive income attributable to ABC Co.	<u><u>\$ 42,000</u></u>	<u><u>\$ 34,000</u></u>	<u><u>\$ 35,000</u></u>

Consolidated Statement of Changes in Equity

A6. This consolidated statement of changes in equity illustrates the requirements in paragraph 38(c) that ABC Co. present a reconciliation at the beginning and the end of the period of the carrying amount of total equity, equity attributable to ABC Co., and equity attributable to the noncontrolling interest. It also illustrates that because the noncontrolling interest is part of the equity of the consolidated group, it is presented in the statement of changes in equity.

		ABC Co. Consolidated Statement of Changes in Equity Year Ended December 31, 20X3					
		ABC Co. Shareholders					
	Total	Comprehensive Income	Retained Earnings	Comprehensive Income	Common Stock	Paid-in Capital	Noncontrolling Interest
Beginning balance	\$ 481,000	\$ -	\$ 167,000	\$ 16,000	\$ 200,000	\$ 50,000	\$ 48,000
Purchase of subsidiary shares from noncontrolling interest	(30,000)					(8,000)	(24,000)
Comprehensive income:				2,000			
Net income (loss)	39,000	39,000	37,500				1,500
Other comprehensive income (loss), net of tax:							
Unrealized gains on securities	5,000	5,000		4,500			500
Other comprehensive income (loss)	5,000	5,000					
Comprehensive income	44,000	44,000					
Dividends paid on common stock	(10,000)		(10,000)				
Ending balance	\$ 485,000		\$ 194,500	\$ 22,500	\$ 200,000	\$ 42,000	\$ 26,000

**Noncontrolling Interests in Consolidated
Financial Statements**

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	ABC Co. Shareholders						
	Accumulated						
	<u>Total</u>	<u>Comprehensive</u>	<u>Retained</u>	<u>Comprehensive</u>	<u>Common</u>	<u>Paid-in</u>	<u>Noncontrolling</u>
	\$	Income	Earnings	Income	Stock	Capital	Interest
	50,000	\$	\$	\$	\$	\$	\$
Beginning balance	26,000	26,000	22,000	-	200,000	40,000	-
Sale of subsidiary shares to noncontrolling interest	-	-	155,000	5,000	-	10,000	-
Comprehensive income:	-	-	-	(1,000)	-	-	41,000
Net income (loss)	26,000	26,000	22,000	-	-	-	4,000
Other comprehensive income, net of tax:	-	-	-	-	-	-	-
Unrealized gains on securities	15,000	15,000	-	12,000	-	-	3,000
Other comprehensive income	-	-	-	-	-	-	-
Comprehensive income	41,000	41,000	-	-	-	-	-
Dividends paid on common stock	(10,000)	-	(10,000)	-	-	-	-
Ending balance	\$ 481,000	\$	\$ 167,000	\$ 16,000	\$ 200,000	\$ 50,000	\$ 48,000

Additional Disclosure If a Parent's Ownership Interest in a Subsidiary Changes during the Period

A7. This schedule illustrates the requirements in paragraph 38(d) that ABC Co. present in notes to the consolidated financial statements a separate schedule that shows the effects of changes in ABC Co.'s ownership interest in its subsidiary on ABC Co.'s equity. This schedule is only required if the parent's ownership interest in a subsidiary changes in any periods presented in the consolidated financial statements.

ABC Co.
Notes to Consolidated Financial Statements
Net Income Attributable to ABC Co. and
Transfers (to) from the Noncontrolling Interest
Year Ended December 31

The purpose of this schedule is to disclose the effects of changes in ABC Co.'s ownership interest in its subsidiary on ABC Co.'s equity.

	<u>20X3</u>	<u>20X2</u>	<u>20X1</u>
Net income attributable to ABC Co.	\$ 37,500	\$ 22,000	\$ 30,000
Transfers (to) from the noncontrolling interest			
Increase in ABC Co.'s paid-in capital for sale of 2,000 Subsidiary A common shares	-	10,000	-
Decrease in ABC Co.'s paid-in capital for purchase of 1,000 Subsidiary A common shares	<u>(8,000)</u>	<u>-</u>	<u>-</u>
Net transfers (to) from noncontrolling interest	<u>(8,000)</u>	<u>10,000</u>	<u>-</u>
Change from net income attributable to ABC Co. and transfers (to) from noncontrolling interest	<u>\$ 29,500</u>	<u>\$ 32,000</u>	<u>\$ 30,000</u>

[This Statement amends ARB 51 to add the definitions in this appendix, but it is not shown as underlined text for ease of readability.]

Appendix B

GLOSSARY

B1. This appendix contains definitions of certain terms or phrases used in this ARB.

Combined financial statements

The financial statements of a combined group of commonly controlled entities or commonly managed entities presented as those of a single economic entity. The combined group does not include the parent.

Consolidated financial statements

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.

Consolidated group

A parent and all its subsidiaries.

Noncontrolling interest

The portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent. A noncontrolling interest is sometimes called a minority interest.

Owners

The term *owners* is used broadly to include holders of ownership interests (equity interests) of investor-owned or mutual entities. Owners include shareholders, partners, proprietors, or members or participants of mutual entities.

Parent

An entity that has a controlling financial interest in one or more subsidiaries. (Also, an entity that is the primary beneficiary of a variable interest entity.)

Subsidiary

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. (Also, a variable interest entity that is consolidated by a primary beneficiary.)

Appendix B

BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

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Appendix B

BACKGROUND INFORMATION AND 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 amends ARB No. 51, *Consolidated Financial Statements*. It establishes accounting and reporting standards for the noncontrolling interest (minority interest) in a subsidiary and for the deconsolidation of a subsidiary. It amends certain of ARB 51’s consolidation procedures to make them consistent with the requirements of FASB Statement

No. 141 (revised 2007), *Business Combinations*, which was issued at the same time as this Statement (paragraphs B60 and B61). It also amends ARB 51 to provide definitions for certain terms used in that ARB and to clarify some terminology.

B3. In addition to the amendments to ARB 51, this Statement amends FASB Statement No. 128, *Earnings per Share*, so that earnings-per-share data will continue to be calculated the same way those data were calculated before this Statement was issued. That is, the calculation of earnings-per-share amounts in consolidated financial statements will continue to be based on amounts attributable to the parent (paragraphs B75 and B76).

B4. This Statement carries forward without reconsideration the conclusions in ARB 51 related to consolidation purpose and consolidation policy and most of the conclusions related to consolidation procedure. This appendix does not include any discussion of

ARB 51's consolidation procedures that are being re-considered in other projects. For example, this Statement carries forward paragraph 17 of ARB 51 without reconsideration. It requires that if income taxes have been paid on intercompany profits on assets remaining within the consolidated group, those taxes should be deferred or the intercompany profits to be eliminated in consolidation should be appropriately reduced. The Board intends to reconsider that guidance in its ongoing income tax convergence project. This Statement also does not change the requirements in FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, or EITF Issue No. 00-6, "Accounting for Freestanding Derivative Financial Instruments Indexed to, and Potentially Settled in, the Stock of a Consolidated Subsidiary."

B5. Issuance of this Statement concludes a joint effort by the Board and the IASB to improve and converge the accounting for and reporting of noncontrolling interests in consolidated financial statements. At the time this Statement was issued, the IASB also issued an international financial reporting standard (IFRS) amending IAS 27, *Consolidated and Separate Financial Statements*. Together, this Statement and that IFRS result in substantial convergence in the accounting for and reporting of the noncontrolling interest in the consolidated financial statements. While the Board's and the IASB's noncontrolling interest decisions are similar, the bases for the IASB's conclusions may differ from the bases for the Board's conclusions described here.

Background Information

B6. In the Board's business combinations project that led to the issuance of Statement 141(R), the Board considered the accounting for business combinations in which an acquirer obtains a controlling financial interest in a subsidiary through the acquisition of some, but not all, of the equity interests in that subsidiary. As a result, there is a noncontrolling interest in the subsidiary at the date of the business combination. Before the issuance of this Statement, U.S. generally accepted accounting principles (GAAP) had no clear accounting and reporting guidance for the noncontrolling interest in a subsidiary. The Board could not reach conclusions about how, in the consolidated financial statements of the parent, to account for those business combinations until it reached conclusions about the nature and classification of the noncontrolling interest.

B7. Before the business combinations project, the Board had deliberated noncontrolling interest issues in two other projects. Paragraphs B8–B25 provide background information about the Board's deliberations of noncontrolling interest issues in the two previous projects and the project that led to the issuance of this Statement.

Consolidations Project

B8. 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 (consolidations project). The objective of that project was to consider all aspects of accounting for affiliations between entities. 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 numerous questions about consolidation policy and procedures, including:

- a. How should the noncontrolling interest be displayed in the consolidated statement of financial position and the 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 the owners of the parent and the noncontrolling interest?
- d. How should the noncontrolling interest's share of acquired assets and assumed liabilities be accounted for in consolidated statements at the date of the acquisition of a subsidiary by a parent?

B9. In September 1991, the Board issued the Discussion Memorandum, *Consolidation Policy and Procedures*. That Discussion Memorandum discussed policies and procedures for preparing consolidated financial statements, including the issues

listed in paragraph B8 and some other noncontrolling interest issues. Approximately 100 comment letters were received in response to that Discussion Memorandum.

B10. 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.

B11. In response to that Exposure Draft, the Board received approximately 160 comment letters. The majority of respondents were opposed to the proposals in the consolidations Exposure Draft. As part of its due process, the Board considered those comments and decided not to issue a final consolidation policy and procedures Statement at that time.¹

Financial Instruments Project

B12. In May 1986, the Board added a financial instruments project to its agenda. 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).

B13. 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. However, in December 1996, the Board decided to reactivate the liabilities and equity project based on input received from its financial instruments task force.

B14. 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 the noncontrolling interest and the following related issues:

- a. Displaying the noncontrolling interest in the consolidated statement of financial position and in the consolidated income statement
- b. Displaying the components of other comprehensive income when there is a noncontrolling interest in a subsidiary
- 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 deconsolidation of the subsidiary.

B15. 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 proposals in the liabilities and equity Exposure Draft related to the noncontrolling interest.

B16. During May, June, and July 2001, Board members and staff met with seven different companies 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 Board's conclusions on the noncontrolling interest. They suggested that the Board consider those issues in the consolidations project or its business combinations project rather than in the liabilities and equity project.

B17. In October 2001, 18 constituents participated in a roundtable discussion that focused on several issues raised in comment letters on the liabilities and equity Exposure Draft. At that roundtable discussion, constituents discussed several aspects of that Exposure Draft, including the accounting for and reporting of the noncontrolling interest in a consolidated subsidiary.

B18. In 2001 and 2002, the Board redeliberated the issues raised in the liabilities and equity Exposure Draft, comment letters, field visits, and the roundtable discussion. At those meetings, the Board affirmed some of its conclusions in that Exposure Draft. At the end of 2002, the Board had not completed its redeliberations of several other issues, including the noncontrolling interest issues. The Board decided to issue a limited-scope Statement to provide

¹The Board issued an Exposure Draft, *Consolidated Financial Statements: Purpose and Policy*, in February 1999. That Exposure Draft was a revision of the consolidations Exposure Draft. It focused on consolidation policy and did not address issues related to the noncontrolling interest.

timely and necessary guidance for certain trouble-some 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 did not address the accounting for or reporting of the noncontrolling interest in a subsidiary.

Business Combinations Project

B19. 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 relevance, completeness, and transparency of accounting for and reporting of business combinations. In 1999, the Board decided that that objective would best be achieved through several phases focused on specific issues. In the first of those phases, the Board reconsidered the methods of accounting for business combinations and the accounting for goodwill and other intangible assets. The first phase ended with the concurrent issuance of FASB Statements No. 141, *Business Combinations*, and No. 142, *Goodwill and Other Intangible Assets*. The second phase began immediately after the Board issued those Statements. In the second phase of the project, the Board considered the *purchase method* of accounting (now called the *acquisition method*) that Statement 141 carried forward, without reconsideration, from APB Opinion No. 16, *Business Combinations*, and FASB Statement No. 38, *Accounting for Preacquisition Contingencies of Purchased Enterprises*. Shortly after beginning that phase, the FASB and the IASB agreed to conduct the second phase of the project as a joint project with the objective of seeking convergence of the applicable U.S. GAAP and IFRSs.

B20. The second phase of the Board's business combination project addressed business combinations in which an acquirer obtains a controlling financial interest in a subsidiary through the acquisition of some, but not all, of the ownership interests in that subsidiary. As a result, there is a noncontrolling interest in the subsidiary at the date of the business combination. The Board could not reach conclusions about how, in the consolidated financial statements of the parent, to account for such business combinations or subsequent acquisitions of noncontrolling interests until it reached conclusions about the nature and classification of the noncontrolling interest in a subsidiary.

B21. The Board had planned to address the noncontrolling interest issues as part of the redeliberations of the liabilities and equity Exposure Draft. However, during the course of the business combinations project, it became clear that the Board would not complete its broad project on liabilities and equity before it issued a final business combinations Statement. Rather than narrow the scope of its business combinations project to exclude transactions involving the noncontrolling interest, the Board decided to broaden its scope to include issues related to the noncontrolling interest in a subsidiary. That decision resulted in the issuance of this Statement.

B22. Because many of the Board's noncontrolling interest decisions had previously been exposed, the Board considered whether to reexpose those decisions or to issue those decisions in a final Statement. Considerable time had passed since the noncontrolling interest decisions were last exposed for comment, and a few decisions were not previously exposed. For those reasons, the Board decided to provide constituents with an opportunity to comment on the proposed requirements before issuing a final noncontrolling interests Statement.

B23. On June 30, 2005, the Board issued the Exposure Draft, *Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries* (noncontrolling interest Exposure Draft), and the Exposure Draft, *Business Combinations* (business combinations Exposure Draft). On the same day, the IASB issued the Exposure Draft of Proposed Amendments to IAS 27, *Consolidated and Separate Financial Statements*. The guidance proposed in the IASB's Exposure Draft was similar to the guidance in the Board's noncontrolling interest Exposure Draft.

B24. The Board received 49 comment letters on the noncontrolling interest Exposure Draft. The Board and the IASB held 5 public roundtable discussions with approximately 45 constituents to discuss issues raised in the comment letters relating to business combinations and the accounting for and reporting of noncontrolling interests. Two roundtable discussions were held in Norwalk, Connecticut, on October 27, 2005, and three roundtable discussions were held in London, United Kingdom, on November 9, 2005. At the roundtable discussions, constituents discussed several aspects of the noncontrolling interest Exposure Draft, including classification of the noncontrolling interest as equity and transactions that result in changes in a parent's ownership interest in a subsidiary.

B25. Throughout 2006 and the first half of 2007, the Board redeliberated the issues in the noncontrolling interest Exposure Draft at six public decision-making meetings. As part of its redeliberations, the Board considered comments from respondents to the noncontrolling interest Exposure Draft, as well as input from its resource group, the Financial Accounting Standards Advisory Council, the User Advisory Council, members of the Investor Task Force, and other interested parties. In response, the Board clarified certain aspects of the noncontrolling interest Exposure Draft but generally affirmed its proposals.

Scope

B26. This Statement applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary.

B27. This Statement does not apply to not-for-profit organizations. AICPA Statement of Position 94-3, *Reporting of Related Entities by Not-for-Profit Organizations*, requires that a not-for-profit organization 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 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. However, the Board concluded that not-for-profit organizations should not apply the requirements of this Statement until it issues interpretative guidance for those organizations. At the time this Statement was issued, the Board was developing that interpretative guidance in a separate project. The Board was deliberating how not-for-profit organizations should apply the acquisition method developed in Statement 141(R) and how those organizations should apply the noncontrolling interest decisions reached in this Statement. Until that project is completed, the Board concluded that not-for-profit organizations should continue to apply the guidance in ARB 51, as it was before the amendments made by this Statement, and any other applicable standards.

Terminology

B28. This Statement amends authoritative accounting literature to change the term *minority interest* to *noncontrolling interest*. The change in terminology

reflects the fact that a holder of a minority of the ownership interests in an entity might have a controlling financial interest in that entity and, conversely, that a holder of a majority of the ownership interests might not have a controlling financial interest in that entity. The Board concluded that *noncontrolling interest* is a more accurate description than *minority interest* of those owners who do not have a controlling financial interest in an entity.

Nature and Classification of the Noncontrolling Interest in the Consolidated Statement of Financial Position

B29. A subsidiary's financial statements do not distinguish between the ownership interests held by its parent and those held by other owners. Both are owners in the subsidiary and have an interest in the aggregate amounts of a subsidiary's reported earnings, retained earnings, and net assets. There is no debate about whether the noncontrolling interest has an ownership interest in a subsidiary; the issue is how to report that interest in the consolidated financial statements.

B30. The Board considered three alternatives for displaying the noncontrolling interest in a subsidiary in the consolidated statement of financial position: as a liability, as equity, or in the mezzanine between liabilities and equity. The noncontrolling interest Exposure Draft proposed that the noncontrolling interest be presented in the consolidated statement of financial position within equity separately from the parent's equity.

B31. Respondents to the noncontrolling interest Exposure Draft generally disagreed. They stated that the noncontrolling interest is not part of the equity of the consolidated group because the noncontrolling owners do not hold an ownership interest in the parent. Most respondents suggested that the Board retain the practice of reporting the noncontrolling interest in the mezzanine in the consolidated statement of financial position.

B32. The Board, however, rejected that alternative. FASB Concepts Statement No. 6, *Elements of Financial Statements*, defines three elements of a statement of financial position: assets, liabilities, and equity (or net assets). If it required that the noncontrolling interest be reported in the mezzanine, the Board would have had to create a new element—noncontrolling interest in subsidiaries—specifically for consolidated financial statements. The Board concluded that no

compelling reason exists to create a new element specifically for consolidated financial statements to report the interests in a subsidiary held by owners other than the parent. The Board believes that using the existing elements of financial statements along with appropriate labeling and disclosure provides financial information in the consolidated financial statements that is representationally faithful, understandable, and relevant to the entity's owners, creditors, and other resource providers.

B33. A few respondents to the noncontrolling interest Exposure Draft suggested that the Board require that the noncontrolling interest be presented as a liability in the consolidated statement of financial position. The Board also rejected that alternative. The Board concluded that a noncontrolling interest in a subsidiary does not meet the definition of a liability in the Board's conceptual framework. Paragraph 35 of Concepts Statement 6 defines liabilities as "probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events" (footnote references omitted). Concepts Statement 6 goes on to explain that a liability embodies a present duty or responsibility to one or more other entities that entails settlement by probable future transfer or use of assets at a specified or determinable date, on occurrence of a specified event, or on demand. The Board noted that the existence of a noncontrolling interest in a subsidiary does not give rise to a present obligation of the consolidated group. 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 of interests 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.

B34. The Board concluded that a noncontrolling interest represents the residual interest in the net assets

of a subsidiary within the consolidated group held by owners other than the parent. The noncontrolling interest, therefore, meets the definition of equity in Concepts Statement 6. Paragraph 49 of Concepts Statement 6 defines equity (or net assets) as "the residual interest in the assets of an entity that remains after deducting its liabilities." Therefore, the Board concluded that the noncontrolling interest should be classified as equity in the consolidated statement of financial position. The Board also decided that the noncontrolling interest should be presented separately from the parent's equity so that users of the consolidated financial statements could easily determine the equity attributable to the parent from the equity attributable to the noncontrolling interest.

B35. Paragraph 27 of this Statement clarifies that only a financial instrument issued by a subsidiary that is classified as equity in the subsidiary's financial statements can be a noncontrolling interest in the consolidated financial statements. This Statement does not attempt to answer all of the classification questions that the Board is considering in its liabilities and equity project. The Board is aware that some financial instruments are commonly called noncontrolling interests but are classified as liabilities or in the mezzanine in accordance with U.S. GAAP or SEC guidance. This Statement does not provide guidance for those instruments. This Statement also does not change the guidance in Issue 00-6. The Board acknowledges that there is an inconsistency between its decisions in this Statement and the guidance in Issue 00-6 because in Issue 00-6 the Task Force reached a consensus that "stock of a subsidiary is not considered equity of the parent (reporting entity)" (paragraph 3). The Board did not address that inconsistency as part of this Statement although it may do so in the future in a separate project.

Attributing Net Income and Comprehensive Income to the Parent and the Noncontrolling Interest

B36. This Statement requires that net income and comprehensive income be attributed to the parent and the noncontrolling interest. The Board believes that that requirement will not change existing practices. Before this Statement was issued, entities were attributing net income to the parent and the noncontrolling interest. They also were attributing the components of other comprehensive income to the parent and the noncontrolling interest based on the requirements of FASB Statement No. 130, *Reporting Comprehensive Income*.

B37. In the noncontrolling interest Exposure Draft, the Board proposed that net income and other comprehensive income be attributed to the parent and noncontrolling interest based on relative ownership interests unless they have entered into an arrangement that required a different attribution, such as a profit sharing arrangement. In that case, net income or loss and the components of other comprehensive income would have been attributed to the parent and the noncontrolling interest based on the terms of the arrangement.

B38. Respondents and other constituents noted that in some cases, the parent's and the noncontrolling interest's ownership in a particular asset or liability may not be proportional. Therefore, it may be inappropriate to attribute net income or losses based on changes in the amounts of those assets or liabilities based on relative ownership interests. For example, if an entity acquired 80 percent of the ownership interests in a subsidiary in a single transaction before Statement 141(R) was effective, it likely would have recorded the intangible assets recognized in the acquisition of that subsidiary at 80 percent of their fair value (80 percent fair value for the ownership interest acquired plus 20 percent carryover value for the interests not acquired in that transaction, which for unrecognized intangible assets would be \$0). If the Board would have required net income to be attributed based on relative ownership interests in this Statement, the noncontrolling interest would have been attributed 20 percent of the amortization expense for those intangible assets even though no amount of the asset was recognized for the noncontrolling interest. Before this Statement was issued, the parent generally would have been attributed all of the amortization expense of those intangible assets. The Board, therefore, decided to require that net income and comprehensive income be attributed to the parent and the noncontrolling interest but not provide detailed guidance for making the attribution. The Board observed that entities were making attributions before this Statement was issued and that those attributions generally were reasonable and appropriate. Therefore, the Board decided that detailed guidance was not needed.

B39. This Statement also requires that losses attributable to the parent and the noncontrolling interest in a subsidiary be attributed to those interests even if it results in a deficit noncontrolling interest balance. In contrast, before the amendments made by this Statement, ARB 51 required that losses applicable to the noncontrolling interest in a subsidiary that exceeded

the noncontrolling interest's equity be attributed to the parent because the noncontrolling interest had no obligation to make good such losses. However, if future earnings occurred, the parent was credited to the extent of the noncontrolling interest's losses previously absorbed.

B40. The Board observed that this treatment was inconsistent with its conclusion that the noncontrolling interest is part of the equity of the consolidated group and participates in the risks and rewards of an investment in the subsidiary. It, therefore, should be attributed its share of losses just like the parent even if the noncontrolling interest balance becomes a deficit.

B41. Respondents generally disagreed with that change. They argued that the parent and the noncontrolling interest are different even if they are both classified as equity. They stated that unless it has otherwise specifically agreed to do so, the noncontrolling interest is not compelled to contribute additional capital for a subsidiary to continue operations. In addition, respondents suggested that if the subsidiary required additional capital to continue operations, it is reasonable to assume that the noncontrolling interest would abandon its investment. In contrast, respondents asserted that the parent often has an implicit obligation to maintain the subsidiary as a going concern.

B42. The Board considered that argument but observed that although it is true that the noncontrolling interest has no further obligation to contribute assets to the subsidiary, neither does the parent. A parent also can choose to abandon its investment in a subsidiary. The attribution of losses should not change because one party might be more likely to provide additional capital for the subsidiary to continue operations. Even if the parent is more likely to contribute capital to a less-than-wholly-owned subsidiary, it is unlikely to do so without receiving anything in return. That is, if a parent contributes capital to a subsidiary, the parent would likely receive additional ownership interests in the subsidiary or something else in return for its additional investment.

B43. A few respondents noted the inconsistency between a parent's accounting for the noncontrolling interest in a subsidiary and an investor's accounting in its financial statements for that investment. That is, in the consolidated financial statements of the parent, a noncontrolling interest might be a deficit if the noncontrolling interest is attributed losses in excess of its equity balance. However, that same investment in the

investor's financial statements cannot be less than \$0. While the Board acknowledges the inconsistency, considering the investor's accounting for an investment in a nonconsolidated entity was outside the scope of this project.

Changes in a Parent's Ownership Interest in a Subsidiary

B44. This Statement requires that changes in a parent's ownership interest in a subsidiary in which the parent retains its controlling financial interest be accounted for as equity transactions. That means that no gain or loss on those changes should be recognized in net income. It also means that no change in the carrying amount of the subsidiary's assets (including goodwill) or liabilities should be recognized. The Board believes that accounting for transactions with noncontrolling owners as equity transactions follows logically from the conclusion that noncontrolling owners have an ownership interest in the consolidated entity. Therefore, the interests held by those owners should be classified as equity in the consolidated financial statements.

B45. Most respondents did not support classifying the noncontrolling interest as equity in the consolidated financial statements; therefore, they did not support accounting for transactions with noncontrolling owners as equity transactions. Some respondents supported classifying the noncontrolling interest as equity as long as that classification did not determine the accounting for transactions with noncontrolling owners. That is, they suggested that even if the noncontrolling interest is classified as equity, transactions with noncontrolling owners should not be accounted for as equity transactions.

B46. Some respondents suggested other alternatives for the accounting for changes in a parent's ownership interest. The most commonly suggested alternative was to retain the practices that existed before this Statement and Statement 141(R) were issued. Increases in a parent's ownership interest in a subsidiary (that is, acquisitions of noncontrolling interests) were accounted for by the purchase method in accordance with Statement 141 and Opinion 16. There was no clear guidance for accounting for decreases in a parent's ownership interest in a subsidiary. Those transactions often were accounted for with gain or loss recognition in net income. Respondents supporting these alternatives said that they provided the most relevant information about a parent's investment in a subsidiary.

B47. The Board rejected those alternatives because they are inconsistent with its conclusion that the noncontrolling owners have an ownership interest in the consolidated group. Transactions with owners are accounted for as equity transactions; they do not result in gain or loss recognition in the income statement. The Board also concluded that recognizing additional assets when ownership interests are acquired from the noncontrolling owners is inconsistent with the Board's conclusions in Statement 141(R). In that Statement, the Board decided that obtaining control of a business is a significant economic event that results in the initial recognition and measurement of the assets acquired and liabilities assumed in that business combination. Subsequent transactions with owners should not affect the measurement of those assets and liabilities. In addition, the Board noted that accounting for changes in a parent's ownership interest as equity transactions is less complex than the other alternatives suggested by respondents.

B48. Some respondents disagreed that transactions with noncontrolling owners should be accounted for as equity transactions because they were concerned that, in many cases, the parent's equity would be reduced when a parent increases its ownership interest in a subsidiary. Those respondents seemed to be particularly concerned about entities whose business models are to acquire a controlling financial interest in an entity with the intention of acquiring the remaining noncontrolling interest at a later date.

B49. The Board considered that concern but observed that entities often choose to enter into transactions that reduce reported equity. For example, many entities enter into share buy-back arrangements even though those arrangements reduce reported equity. Even a simple cash dividend reduces reported equity, but entities still choose to provide dividends to their shareholders.

B50. The Board's conclusion on the accounting for changes in a parent's ownership interest resolves a longstanding question of how a parent should account for a change in its investment in its subsidiary when the subsidiary issues shares. The question is whether the parent should account for the change in its investment as an increase or as a decrease to its equity or as a gain or loss. The SEC addressed the issue in Staff Accounting Bulletin No. 51, *Accounting for Sales of Stock by a Subsidiary*, issued in March 1983. SAB 51 states:

Although the staff had 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 3, 1980 Issues Paper, "Accounting in Consolidation for Issuances of a Subsidiary's Stock," prepared by the Accounting Standards Executive Committee of the AICPA. 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. [Interpretative Response to Question 1]

B51. Thus, SAB 51 permitted the recognition of gains or losses in the consolidated financial statements when a subsidiary issues its own shares until the Board reconsidered that guidance. The Board has considered and rejected that practice. The recognition of gains or losses when a subsidiary issues its own shares is inconsistent with the view that noncontrolling owners have an ownership interest in the consolidated group because gains and losses are not recognized on transactions with owners. Transactions with owners acting in their capacity as owners are recognized directly in equity. Resolving this issue 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.

Deconsolidation of a Subsidiary

B52. This Statement provides guidance for accounting for the deconsolidation of a subsidiary. Deconsolidation occurs when a parent ceases to have a controlling financial interest in a subsidiary. A parent might lose its controlling financial interest in a subsidiary by selling its controlling financial interest in the subsidiary to a third party. A parent also might lose its controlling financial interest in a subsidiary in the absence of a transaction involving the parent. For

example, the subsidiary might sell its shares to a third party, and, as a result, the parent may no longer own enough shares to have a controlling financial interest in the subsidiary.

B53. When a parent ceases to have a controlling financial interest in a subsidiary, the parent-subsidiary relationship ceases to exist. The parent no longer controls the subsidiary's assets and liabilities. The parent therefore derecognizes the assets, liabilities, and equity components related to that subsidiary. The equity components will include any noncontrolling interest as well as amounts previously recognized in other comprehensive income.

B54. In the simple case of a parent disposing of its entire interest in a subsidiary, the Board readily concluded that the gain or loss should be measured by comparing the fair value of the consideration received with the carrying amount of the subsidiary's net assets. How to measure the gain or loss was not as clear if the parent retained a noncontrolling equity investment in the former subsidiary, however. The Board considered two approaches for measuring the gain or loss if a subsidiary is deconsolidated and the parent retains a noncontrolling investment in the former subsidiary. The first approach is to measure the gain or loss using the **carrying amount** in the consolidated financial statements of any noncontrolling investment in the subsidiary retained by the parent. The second approach is to measure the gain or loss using the **fair value** of any noncontrolling investment in the former subsidiary retained by the parent. The Board decided that the first 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. Therefore, the Board decided to adopt the second approach.

B55. Most respondents suggested that the Board retain the first approach. They disagreed that the retained investment should be measured at fair value and that a gain or loss should be recognized. Those respondents asserted that the principles for revenue and gain recognition in the conceptual framework would not be satisfied for a retained interest. The Board disagreed with those respondents. Measuring the retained investment to fair value 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 has a controlling financial interest in that subsidiary is a significant economic event. The parent-subsidiary relationship ceases to exist and an

investor-investee relationship begins, and that relationship differs significantly from the former parent-subsidiary relationship. Recognizing the retained investment at fair value is more representationally faithful and provides users of financial statements with more relevant information about the value of the retained investment. It also is consistent with the requirements of Statement 141(R). In Statement 141(R), the Board decided that if an investor has an equity investment in an investee and subsequently obtains a controlling financial interest in (control of) the investee, the acquirer remeasures its previously held noncontrolling investment to fair value and recognizes a gain or loss.

B56. The Board considered whether its decision that a parent should recognize a gain or loss when a subsidiary is deconsolidated could give rise to structuring opportunities. For example, the Board considered whether a parent would be motivated to structure a transaction or arrangement into multiple steps to maximize gains or minimize losses if that parent was planning to dispose of its controlling financial interest in a subsidiary. Consider the following example. Parent Co. has a controlling financial interest in Subsidiary A by owning 70 percent of its ownership interests. Parent Co. intends to sell all of its 70 percent interest in Subsidiary A. Parent Co. could initially sell 19 percent of its ownership interest in Subsidiary A without loss of control and then, soon afterwards, sell the remaining 51 percent and lose control. Alternatively, Parent Co. could sell all of its 70 percent interest in Subsidiary A in one transaction. In the first case, the gain or loss on the sale of the 19 percent interest would be recognized in equity, whereas the gain or loss from the sale of the remaining 51 percent interest would be recognized in net income. In the second case, the whole amount of the gain or loss on the sale of the 70 percent interest would be recognized in net income.

B57. The Board observed that the opportunity to conceal losses through such structuring should be reduced by the requirements of Statement 142 and FASB Statement No. 144, *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, an entity should recognize any impairment loss for the goodwill and long-lived assets of a subsidiary that will be sold or otherwise disposed of before the subsidiary is deconsolidated. The Board concluded that the principal risk is minimizing gains and that entities are unlikely to try to minimize gains. However, the Board decided that the possibility of structuring could be overcome by requiring entities to consider whether multiple arrangements should be accounted for as a single transaction to ensure that the economics of an arrangement are faithfully represented. The Board believes that all of the terms and conditions of the arrangements and their economic effects should be considered in determining whether multiple arrangements should be accounted for as a single arrangement. Accordingly, the Board included indicators in paragraph 37 of ARB 51, as amended, to assist in identifying when multiple arrangements that result in the deconsolidation of a subsidiary should be treated as a single arrangement.

B58. Some respondents disagreed with the indicators that were provided in the noncontrolling interest Exposure Draft. They stated that the need for such guidance indicates a conceptual weakness in the accounting model developed. They also stated that such guidance would be unnecessary under the other alternatives such as retaining existing practices. The Board acknowledges that guidance on multiple arrangements would be unnecessary under some of the other accounting alternatives. However, the Board believes that this does not necessarily mean that those models are conceptually superior.

B59. Some respondents suggested that the Statement should include examples rather than indicators for when multiple transactions should be treated as a single transaction or arrangement but that those examples should not be considered a closed list. The Board considered that suggestion but decided to affirm the indicators proposed in the noncontrolling interest Exposure Draft. The Board concluded that the indicators are principles that could be applied to a variety of situations. The alternative would be to provide a list of examples that could not possibly capture every structuring arrangement. The Board concluded that providing examples would not be a preferable alternative.

Other Amendments to ARB 51

B60. This Statement amends ARB 51 to eliminate some guidance that was inconsistent with the Board's conclusions in Statement 141(R), which was issued at the same time as this Statement. Specifically, paragraph 11 of ARB 51 permitted a reporting alternative if a subsidiary is acquired during the year. It allowed an entity to include a subsidiary that was purchased during the year in the consolidation as though it had been acquired at the beginning of the year, and to deduct the preacquisition earnings at the bottom of the consolidated income statement. Also, paragraph 10 of ARB 51 allowed an entity that acquired a subsidiary in a step acquisition during the year to include in consolidated income its share of the subsidiary's earnings from the period when the entity had an investment, but not a controlling financial interest, in the subsidiary.

B61. In Statement 141(R), the Board concluded that to faithfully represent an acquirer's financial position and results of operations, the acquirer should account for all business combinations at the acquisition date. That is, its financial position should reflect the assets acquired and liabilities assumed at the acquisition date—not before or after they are acquired or assumed. Moreover, the acquirer's financial statements for the period should include only the cash inflows and outflows, revenues and expenses, and other effects of the acquiree's operations after the acquisition date. Paragraphs B106–B110 of the basis for conclusions to Statement 141(R) provides more information.

Presentation and Disclosure

B62. The Board's conclusion that the noncontrolling interest is part of the equity of the consolidated group led to questions about how the noncontrolling interest should be presented in the consolidated financial statements and what disclosures are needed so that the consolidated financial statements provide transparent, decision-useful information. In the noncontrolling interest Exposure Draft, the Board proposed presentation and disclosure requirements that are consistent with the decision that the noncontrolling interest is part of the equity of the consolidated group. It also proposed additional disclosures that would clearly identify and distinguish between the interests of the parent's owners and the noncontrolling interest.

B63. The Board first considered how the classification of the noncontrolling interest as part of the equity

of the consolidated group should affect the presentation and disclosure of income statement amounts. Before this Statement was issued, net income attributable to the noncontrolling interest generally was presented as an expense to arrive at consolidated net income in the consolidated financial statements. The Board decided that that practice was inappropriate. Both the parent and the noncontrolling interest have an ownership interest in the consolidated group. As such, the noncontrolling interest is of the same nature and should be presented the same way in the consolidated income statement. Therefore, the Board concluded that revenues, expenses, gains, losses, and net income or loss should be reported in the consolidated income statement at consolidated amounts and, therefore, should include amounts attributable to both the parent and the noncontrolling interest.

B64. While the Board believes that consolidated income statement amounts should include amounts attributable to the parent and the noncontrolling interest, the Board also believes that consolidated financial statements are more useful if those statements clearly identify and distinguish between amounts attributable to both the parent's owners and the noncontrolling interest. Thus, the Board decided to require that the parent disclose, on the face of the consolidated income statement, the amount of consolidated net income attributable to the parent and the amount of consolidated net income attributable to the noncontrolling interest. The Board also decided to require that the parent disclose, either in the notes or on the face of the consolidated income statement, amounts attributable to the parent for income from continuing operations, discontinued operations, and extraordinary items.

B65. The Board also considered how the classification of the noncontrolling interest as part of the equity of the consolidated group should affect the presentation and disclosure of other comprehensive income. Statement 130 requires a parent to attribute the components of other comprehensive income to the noncontrolling interest in a subsidiary. However, if the noncontrolling interest is presented in the mezzanine or as a liability, the amount attributed to it may not be easily discernable from the consolidated financial statements. Similar to its conclusions for presenting net income, the Board decided that the parent should disclose, on the face of the consolidated statement in which comprehensive income is presented, the

amount of consolidated comprehensive income attributable to the parent and the amount of consolidated comprehensive income attributable to the noncontrolling interest. The Board also decided that the parent should disclose, either in the notes or on the face of the consolidated statement in which comprehensive income is presented, the amounts of other comprehensive income attributable to the parent and the noncontrolling interest.

B66. In the noncontrolling interest Exposure Draft, the Board proposed that a parent provide a reconciliation of the noncontrolling interest at the beginning and the end of the period. Based on comments received from respondents, the Board reconsidered that proposed requirement in redeliberations. The Board did not see why that disclosure should be limited to only the noncontrolling interest. The Board decided to broaden that requirement and, instead, require that a parent present a reconciliation at the beginning and the end of the period of the carrying amount of total equity, equity attributable to the parent, and equity attributable to noncontrolling interests in subsidiaries. The Board observed that if an entity presents a statement of changes in equity, those reconciliations would naturally be provided in that statement. However, only SEC registrants are required to present a statement of changes in equity. Nonregistered companies can provide it if they choose to, but it is not required. Therefore, if an entity does not provide a statement of changes in equity, it must provide those reconciliations in the notes to consolidated financial statements. The Board also observed that an entity would meet the requirement to disclose the components of other comprehensive income attributable to the parent and the noncontrolling interest as part of that reconciliation.

B67. The Board considered requests from some users of financial statements for clear and transparent disclosure about how changes in a parent's ownership interest in a subsidiary would affect the equity attributable to the parent. The Board observed that information about changes in a parent's ownership interest would be available in the statement of changes in equity or in the equity reconciliation. However, the Board also decided to require more prominent disclosure. Therefore, the Board decided that if a parent's ownership interest in a subsidiary changes, the entity should disclose a schedule that presents the effects of those changes on the parent's equity. The Board decided that that schedule should be disclosed in notes to the consolidated financial statements rather than presented as a separate statement. The Board was

concerned that presenting it as a separate statement could lead to confusion about the actual earnings of the entity for the period.

B68. In August 2003, the Board met with 12 users of financial statements to discuss the Board's decisions on the accounting for and reporting of noncontrolling interests in consolidated financial statements. The Board asked the users whether they believed the information provided by the presentation and disclosure proposals, including the additional schedule, would be useful. The users generally supported the presentation and disclosure proposals. They also supported requiring entities to provide the additional schedule that presents the effects of transactions with noncontrolling owners on the equity attributable to the parent.

B69. Respondents to the noncontrolling interest Exposure Draft generally disagreed with the proposed presentation and disclosure requirements. Most of those respondents did not support the Board's fundamental conclusion that the noncontrolling interest is part of the equity of the consolidated group. As such, they disagreed with the presentation and disclosure requirements that follow from that fundamental decision. The Board, however, affirmed the presentation and disclosure requirements in the noncontrolling interest Exposure Draft. The Board believes that the presentation and disclosure requirements in this Statement will provide users with more complete information about the equity interests of a consolidated group. Those requirements will provide users with information pertaining to the economic entity as a whole and information pertaining only to the parent's owners. As such, the Board believes that the presentation and disclosure requirements of this Statement will meet the informational needs of all parties.

Effective Date

B70. The Board decided that this Statement should be effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, which is the same effective date as Statement 141(R). 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). The Board concluded that this Statement should be applied at the beginning of an entity's annual period because of the fundamental change this Statement will have on how the noncontrolling interest is presented.

B71. This Statement prohibits early adoption. The FASB's Investors Technical Advisory Committee and other users of financial statements told the Board that providing alternatives about when entities adopt a new standard decreases the comparability of information presented, thereby increasing the cost of analyzing and using that information. The Board, therefore, decided to prohibit early adoption.

Transition

B72. To improve comparability of financial information across entities, the Board decided to require retrospective application of this Statement's presentation and disclosure requirements. Therefore, an entity would recast any prior periods presented in its financial statements as if the entity had been applying this Statement's presentation and disclosure for all periods presented. The Board believes that the benefits of retrospective application for those requirements outweigh the costs.

B73. In contrast, the Board concluded that an entity should not change the amounts recognized in the consolidated financial statements in the periods before this Statement is adopted. Thus, an entity would not change the amounts recognized in the consolidated financial statements for acquisitions or dispositions of noncontrolling interests or for deconsolidating a subsidiary that occurred before adopting this Statement. The Board concluded that requiring retrospective application of this Statement's requirements for amounts recognized for previous transactions would result in implementation difficulties that would outweigh the benefit of improved comparability of financial information. That is, the information needed to retrospectively adjust the amounts previously recorded may not exist or may no longer be obtainable. For example, the Board believes it would be impracticable for an entity to recast previous acquisitions of noncontrolling interests that were accounted for by the purchase method in accordance with Statement 141 or Opinion 16.

B74. As discussed in paragraphs B39–B42, ARB 51 had previously required that losses applicable to the noncontrolling interest in a subsidiary that exceeded the noncontrolling interest's equity be attributed to the parent on the basis that the noncontrolling interest had no obligation to make good such losses. However, if future earnings occurred, the parent was credited to the extent of the noncontrolling interest's losses previously absorbed. In contrast, this Statement requires that losses be attributed to both the par-

ent and the noncontrolling interest even if the noncontrolling interest's equity balance becomes negative. The Board understands that because of its decision to change the requirement in ARB 51, an entity's net income attributable to the parent in the year of adoption might not be comparable with the previous year if the parent was being attributed losses in excess of the noncontrolling interest's equity balance. Therefore, the Board concluded that if, in the year of adoption, an entity's consolidated net income attributable to the parent would have been materially different had the previous requirement in paragraph 15 of ARB 51 been applied, an entity should provide a pro forma disclosure. The entity would disclose pro forma net income and earnings per share as if the reporting entity had still been applying the previous requirement in ARB 51 in the year of adoption.

Amendments to Statement 128

B75. The Board considered how the classification of the noncontrolling interest as part of the equity of the consolidated group should affect the computation of earnings-per-share data. The Board concluded that the presentation of earnings-per-share information is for the benefit of the parent's owners. Thus, although amounts for both the parent and the noncontrolling interest are reported in consolidated net income, the Board decided the calculation of earnings-per-share data in consolidated financial statements that include subsidiaries that are less than wholly owned should be based on amounts attributable to the parent's owners. Thus, this Statement amends Statement 128 so that earnings-per-share data will continue to be calculated the same way they were calculated before this Statement was issued, based on amounts attributable to the parent's owners.

B76. Respondents generally agreed that the calculation of earnings-per-share data in consolidated financial statements should be based on amounts attributable to the parent's owners. Some respondents noted that the Board's conclusion is inconsistent with viewing consolidated financial statements as those of a single economic entity. The Board acknowledges an inconsistency between presenting financial statements as those of a single economic entity and requiring earnings-per-share data to be calculated based only on the amounts attributable to the parent's owners. The Board concluded, however, that earnings per share is only a metric. The Board did not see any need to change how earnings-per-share data have been historically calculated at this time.

Benefits and Costs

B77. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. The Board's assessment of the costs and benefits of issuing an accounting standard is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement an accounting standard or to quantify the value of improved information in financial statements.

B78. The Board believes that by establishing standards for noncontrolling interests in subsidiaries, this Statement will result in financial statements that are more consistent and comparable. This Statement also will increase comparability internationally because its standards are consistent with the IASB's requirements for noncontrolling interests in subsidiaries and accounting for the deconsolidation of a subsidiary in IAS 27. As a result, this Statement will simplify the accounting for entities that issue financial statements under both U.S. GAAP and IFRSs.

B79. This Statement requires expanded labeling and disclosures in the consolidated financial statements of amounts attributable to the parent and the noncontrolling interest. The Board believes that the additional disclosures result in information that is representationally faithful, understandable, and relevant to owners of the parent as well as to creditors and other users of consolidated financial statements.

B80. This Statement requires a parent to account for acquisitions of noncontrolling ownership interests in its consolidated subsidiary as equity transactions. Previously, the parent accounted for those transactions using the purchase method. Use of the purchase method required an entity to measure the fair value of all of the individual assets and liabilities of the subsidiary, often by using outside advisors and valuation practitioners. Accounting for such transactions as equity transactions should reduce costs because an entity will no longer be required to value the individual assets and liabilities of the subsidiary.

B81. This Statement requires that if a parent deconsolidates a subsidiary and retains a noncontrolling equity investment in the former subsidiary, the parent remeasure the retained investment to fair value on the

date control is lost. The Board understood that requiring the investment to be recognized at fair value rather than its carrying amount would increase costs to preparers and their auditors. The Board concluded, however, that fair value would provide more relevant information to users. The Board also believes that if a parent sells its controlling financial interest in a subsidiary, the parent should have the information necessary to determine the fair value of the retained investment since the parent determined the price at which to sell its interest.

B82. The Board conducted several procedures before issuing this Statement to help assess the expected costs associated with implementing this Statement's requirements. Those procedures included conducting field visits and meetings with a resource group comprising preparers, auditors, and users of financial statements to discuss the operationality of the Statement. Those procedures also included conducting roundtable discussions with constituents and meeting with users of financial statements to discuss whether the requirements would provide more useful information. Additionally, the Board decided to prohibit retrospective application of certain provisions of this Statement to minimize the costs of implementation. 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

AMENDMENTS TO EXISTING PRONOUNCEMENTS

[Note: After the effective date of the application of the amendments made by Statement 160 to ARB 51 and other pronouncements by not-for-profit entities (prospectively in the first set of initial or annual financial statements for a reporting period beginning on or after December 15, 2009), paragraph C1 is deleted.]

C1. The following amendments do not apply to not-for-profit organizations. Not-for-profit organizations shall continue to apply the guidance in ARB No. 51, *Consolidated Financial Statements*, before the amendments made by this Statement until the Board issues interpretative guidance.

C2. All instances of the term *minority interest(s)* are replaced by the term *noncontrolling interest(s)*.

C3. 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:

Paragraph 1 of Accounting Research Bulletin No. 51 states that: “There is a presumption that consolidated financial statements are more meaningful than separate financial statements and that they are usually necessary for a fair presentation when one of the entities/companies in the consolidated group directly or indirectly has a controlling financial interest in the other entities/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 all its subsidiaries as an single economic entity. In practice, consolidation has been limited to subsidiaries ~~companies~~, although under certain circumstances valid reasons may exist for omitting a subsidiary from consolidation.³

³See paragraphs 2 and 3 of ARB No. 51, as amended by FASB Statement No. 94, *Consolidation of All Majority-Owned Subsidiaries*, and FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*.

- b. Paragraph 19(e):

A transaction of an investee of a capital nature that affects the investor’s share of stockholders’ equity of the investee should be accounted for on a step-by-step basis ~~as if the investee were a consolidated subsidiary~~.

- c. Paragraph 19(m):

An investment in common stock of an investee that was previously accounted for on other than the equity method may become qualified for use of the equity method by an increase in the level of ownership described in paragraph 17 (i.e., acquisition of additional voting stock by the investor, acquisition or retirement of voting stock by the investee, or other transactions). When an investment qualifies for use of the equity method,

the investor should adopt the equity method of accounting. The investment, results of operations (current and prior periods presented), and retained earnings of the investor should be adjusted retroactively ~~in a manner consistent with the accounting for~~ on a step-by-step basis ~~acquisition of a subsidiary~~ as if the equity method had been in effect during all previous periods in which the investment was held.^{11a} If that retroactive adjustment is made on or after the date Statement 142 is initially applied in its entirety, the goodwill related to that investment (including goodwill related to step purchases made prior to the initial application of Statement 142) shall not be amortized in determining the amount of the adjustment.

- C4. APB Opinion No. 29, *Accounting for Non-monetary 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.~~

- C5. 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 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 ~~28~~4 of ARB No. 51, as amended, provides for complete elimination of intercompany income profits or losses in consolidation. It also states that the elimination of intercompany income profit or loss may be allocated proportionately between the parent majority and noncontrolling minority interests. Whether all or a proportionate part of the intercompany income profit or loss should be eliminated under the equity method depends largely upon the relationship between the investor and investee. **[The remainder of this Interpretation has been omitted.]**

C6. 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.

C7. FASB Statement No. 89, *Financial Reporting and Changing Prices*, is amended as follows:

a. In the table after paragraph 96, as amended, which provides guidance for the classification of certain asset and liability items as monetary or nonmonetary, the line item *Minority interests in consolidated subsidiaries* (paragraph 107) is replaced by *Noncontrolling interests in consolidated subsidiaries* (paragraph 107) and is moved from the "Liabilities" section to the "Equity" section.

C8. FASB Statement No. 128, *Earnings per Share*, is amended as follows:

a. Paragraph 9:

Income available to common stockholders 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)³ from income from continuing operations (if that amount appears in the income statement)⁴ and also from net income. If there is a loss from continuing operations or a net loss, the amount of the loss shall be increased by those preferred dividends. For purposes of computing EPS in consolidated financial statements (both basic and diluted), if one or more less-than-wholly-owned subsidiaries are included in the consolidated group, income from continuing operations and net income shall exclude the income attributable to the noncontrolling interest in subsidiaries. Illustration 7 in Appendix C provides an example of calculating EPS when there is a noncontrolling interest in a subsidiary in the consolidated group.

b. Paragraph 15, as amended:

An entity that reports a discontinued operation or an extraordinary item in a period shall use income from continuing operations⁷ (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 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.⁸ (The control number excludes income from continuing operations attributable to the noncontrolling interest in subsidiaries.)

c. Footnote 26 to paragraph 62:

~~Refer to paragraphs 140 and 141.~~

d. 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: **[The remainder of the paragraph has been omitted.]**

C9. 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 38(a) of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, as amended, if an entity has an outstanding noncontrolling interest (minority interest), amounts for both comprehensive income attributable to the parent and comprehensive income attributable to the noncontrolling interest in a less-than-wholly-owned subsidiary 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 38(c) of ARB 51, as amended, if an entity has an outstanding noncontrolling interest, the components of other comprehensive

income attributable to the parent and noncontrolling interest in a less-than-wholly-owned subsidiary are required to be disclosed as part of its equity reconciliation.

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.¹⁴

¹⁴Appendix A of ARB 51 illustrates one method for reporting comprehensive income if the entity has one or more less-than-wholly-owned subsidiaries.

C10. 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 the effective date of FASB Statement No. 141 (revised 2007), *Business Combinations*—whether acquired by the parent, the subsidiary itself, or another affiliate.⁵ 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.

⁵FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, which is effective for fiscal years, and the interim periods within those fiscal years, beginning on or after December 15, 2008, 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 144 requires that the acquisition of some or all of the noncontrolling interests in a subsidiary be accounted for using the purchase method.

- b. Paragraph 38 and the heading preceding it are deleted:

Goodwill impairment testing when a noncontrolling interest exists

Goodwill arising from a business combination with a continuing noncontrolling interest shall be tested for impairment using an approach consistent with the approach used to measure the noncontrolling interest at the acquisition date. (A noncontrolling interest is sometimes referred to as a minority interest.) For example, if goodwill is initially recognized based only on the controlling interest of the parent, the fair value of the reporting unit used in the impairment test should be based on that controlling interest and should not reflect the portion of fair value attributable to the noncontrolling interest. Similarly, the implied fair value of goodwill that is determined in the second step of the impairment test and used to measure the impairment loss should reflect only the parent company's interest in that goodwill.

- c. Paragraph 39A and its related heading are added:

Goodwill Impairment Testing and Disposal of All or a Portion of a Reporting Unit When the Reporting Unit Is Less Than Wholly Owned

If a reporting unit is less than wholly owned, the fair value of the reporting unit and the implied fair value of goodwill shall be determined in the same manner as it would be determined in a business combination accounted for in accordance with Statement 141(R). Any impairment loss measured in the second step of the goodwill impairment test shall be attributed to the parent and the noncontrolling interest on a rational basis. For example, before Statement 141(R) was effective, generally only the goodwill attributable to the parent was recognized. If the reporting unit includes only goodwill attributable to the parent, the goodwill impairment loss would be attributed entirely to the parent. However, if the reporting unit includes goodwill attributable to both the parent and the noncontrolling interest, the goodwill impairment loss would be at-

tributed to both the parent and the noncontrolling interest. Similarly, when all or a portion of a less-than-wholly-owned reporting unit is disposed of, the gain or loss on disposal shall be attributed to the parent and the noncontrolling interest.

- C11. FASB Interpretation No. 37, *Accounting for Translation Adjustments upon Sale of Part of an Investment in a Foreign Entity*, is amended as follows:

- a. Paragraph 2:

If an enterprise sells part of its equity method investment ownership interest in a foreign entity, a pro rata portion of the accumulated translation adjustment component of equity attributable to that equity method investment shall be recognized in measuring the gain or loss on the sale.^{1,2}

¹Under APB Opinion No. 30, *Reporting the Results of Operations*, a gain or loss on disposal of part or all of a net investment may be recognized in a period other than that in which actual sale or liquidation occurs. Paragraph 14 of Statement 52 does not alter the period in which a gain or loss on sale or liquidation is recognized under existing generally accepted accounting principles.

²The accounting guidance in FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, applies if an enterprise sells part of its ownership interest in a consolidated foreign entity.

- C12. FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, is amended as follows:

- a. Paragraph 22:

The principles of consolidated financial statements in ARB 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 6-39-6-15 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.

C13. FASB Staff Position FAS 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,” is amended as follows:

a. Paragraph 8:

The Board plans to reconsider implementation issues and, perhaps, classification or measurement guidance for those noncontrolling interests during the deferral period, in conjunction with the Board’s ongoing projects on liabilities and equity ~~and business combinations: purchase method procedures.~~

Appendix D

AMENDMENTS TO OTHER AUTHORITATIVE LITERATURE

D1. 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 FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. [Note: Only the sections that have been amended are shown in this appendix.]

[Note: After the effective date of the application of the amendments made by Statement 160 to ARB 51 and other pronouncements by not-for-profit entities (prospectively in the first set of initial or

annual financial statements for a reporting period beginning on or after December 15, 2009), paragraph D2 is deleted.]

D2. The following amendments do not apply to not-for-profit organizations. Not-for-profit organizations shall continue to apply the guidance in ARB No. 51, *Consolidated Financial Statements*, before the amendments made by this Statement until the Board issues interpretative guidance.

D3. This Statement nullifies the following Emerging Issues Task Force (EITF) Issues:

- a. Issue 2 of EITF Issue No. 90-5, “Exchanges of Ownership Interests between Entities under Common Control”²
- b. Issue 2 of EITF Issue No. 90-13, “Accounting for Simultaneous Common Control Mergers”³
- c. EITF Issue No. 94-2, “Treatment of Minority Interests in Certain Real Estate Investment Trusts”
- d. EITF Issue No. 95-7, “Implementation Issues Related to the Treatment of Minority Interests in Certain Real Estate Investment Trusts.”

D4. All instances of the term *minority interest(s)* are replaced by the term *noncontrolling interest(s)*.

D5. EITF Issue No. 99-1, “Accounting for Debt Convertible into the Stock of a Consolidated Subsidiary,” is amended as follows: [Added text is underlined and deleted text is ~~struck out~~.]

a. Paragraph 7:

Statement 160, which was issued in December 2007, amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It does not affect the consensus guidance reached in this Issue. No further EITF discussion is planned.

b. Paragraph 8 is added:

No further EITF discussion is planned.

²FASB Statement No. 141 (revised 2007), *Business Combinations*, nullifies Issue 1, and this Statement nullifies Issue 2.

³Statement 141(R) nullifies Issue 1, and this Statement nullifies Issue 2.

D6. EITF Issue No. 00-4, “Majority Owner’s Accounting for a Transaction in the Shares of a Consolidated Subsidiary and a Derivative Indexed to the Minority Interest in That Subsidiary,” is amended as follows:

a. Paragraph 19:

Statement 160 was issued in December 2007. It amends ARB 51 to establish accounting and reporting standards for noncontrolling interests in subsidiaries. Other than changing the term *minority interest* to *noncontrolling interest*, it does not affect the consensus guidance reached in this Issue. No further EITF discussion is planned.

b. Paragraph 20 is added as follows:

No further EITF discussion is planned.

D7. EITF Issue No. 00-6, “Accounting for Free-standing Derivative Financial Instruments Indexed to, and Potentially Settled in, the Stock of a Consolidated Subsidiary,” is amended as follows:

a. Paragraph 20:

Under paragraph 21 of Statement 150, forward purchase contracts that require physical settlement by repurchase of a fixed number of shares (in this Issue, the minority interest) in exchange for cash are initially measured at the fair value of the shares at inception, adjusted for any consideration or unstated rights or privileges, with an initial reduction to equity (minority interest) equal to the fair value of the shares at inception. Any difference between that initial reduction to minority interest and the carrying amount of the minority interest would be reflected in equity (see paragraph 33 of Statement 160) as part of a step acquisition, that is, by purchase accounting in accordance with Statement 141 and related guidance. Subsequently, minority interest accounting no longer applies; instead, the liability is adjusted at each reporting period according to the provisions of paragraph 22 of Statement 150.

b. Paragraph 23:

Statement 160 was issued in December 2007. It amends ARB 51 to establish accounting and reporting standards for noncontrolling interests in subsidiaries. Other than changing the term *minority interest* to *noncontrolling interest*, it does not affect the consensus guidance reached in this Issue. No further EITF discussion is planned.

c. Paragraph 24 is added as follows:

No further EITF discussion is planned.

D8. EITF Issue No. 00-19, “Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock,” is amended as follows:

a. Paragraph 81:

Statement 160 was issued in December 2007. It amends ARB 51 to establish accounting and reporting standards for noncontrolling interests in subsidiaries. Other than changing the term *minority interest* to *noncontrolling interest*, it does not affect the consensus guidance reached in this Issue. No further EITF discussion is planned.

b. Paragraph 82 is added as follows:

No further EITF discussion is planned.

D9. EITF Issue No. 01-2, “Interpretations of APB Opinion No. 29,” is amended as follows:

a. Issue 6:

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).

b. Paragraph 17A is added as follows:

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.

c. Issue 8(b):

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, ~~or business~~ to another entity in exchange for a noncontrolling ownership interest in the other entity.

d. Paragraph 41:

Statement 141(R), which replaces Statement 141, was issued in December 2007. 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. Statement 141, which supersedes Opinion 16, was issued in June 2001. Paragraph 10 of Statement 141 clarifies that the exchange of a business for a business is a business combination. Statement 141 carries forward, without reconsideration, the guidance in paragraphs 5 and 43 of Opinion 16 that require that the acquisition of a minority interest be accounted for using the purchase method. Paragraphs 14 and A5–A7 of Statement 141 provide guidance on the accounting for acquisition of a minority interest.

e. Paragraph 45:

Issue 6 addresses whether full or partial gain recognition is appropriate in circumstances in which an entity transfers its ownership of either a controlled productive asset (or assets) or a controlled business 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.

f. 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 <u>Does Not</u> Meet the Definition of a Business	Controlled Group of Assets That Meets the Definition of a Business
A S S E T T G I V E N U R E	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.	Fair value (Issue 1(a) of Issue 01-2 and 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.	Fair value (Issue 1(a) of Issue 01-2 and Statement 141(R))
		Carry-over basis if: (a) The fair value of neither the asset(s) received nor the asset(s) relinquished is determinable within reasonable limits, or (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 (c) The exchange lacks commercial substance. (See Statement 153.)	

Otherwise, fair value

ASSET RECEIVED

	Investment Accounted for by the Equity Method (Including Joint Ventures)	Controlled Asset or Group of Assets That <u>Does Not</u> Meet the Definition of a Business	Controlled Group of Assets That Meets the Definition of a Business
A S S E T T R E A T M E N T U P	A consensus was not reached on this circumstance; however, SEC registrants are required to account for at fair value. <u>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.</u>	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(R), paragraph <u>A2(a)</u> ⁴⁰)

D10. AICPA Statement of Position 04-2, *Accounting for Real Estate Time-Sharing Transactions*, is amended as follows:

- a. Paragraph .61:

The guidance in the preceding paragraph applies if the time-share seller does not consolidate the OA. This SOP does not provide guidance as to when (or how) a time-share seller should consolidate an OA. Accounting Research Bulletin (ARB) No. 51, *Consolidated Financial Statements*, as amended by FASB Statement No. 94, *Consolidation of All Majority-Owned Subsidiaries*, and FASB Statement No. 144, and FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*; FASB Interpretation No. 46R, *Consolidation of Variable Interest Entities*; and related EITF Issues provide the relevant guidance. AcSEC notes that FASB Statement No. 144 amended ARB No. 51 to remove the prior exception allowing for the nonconsolidation of an entity when control is likely to be temporary.

D11. AICPA Audit and Accounting Guide, *Brokers and Dealers in Securities*, is amended as follows:

- a. Paragraph 4.13:

Annual audited financial statements of a company and its subsidiaries that are presented in conformity with GAAP are presented on a consolidated basis in accordance with ARB No. 51, *Consolidated Financial Statements*, FASB Statement No. 94, *Consolidation of All Majority-owned Subsidiaries*,[‡] FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities—an interpretation of ARB No. 51* (Interpretation 46R), and FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 25* (which provides special guidance for consolidation of qualifying SPEs). However, audited financial statements filed pursuant to Part II or Part IIA of the FOCUS report may have different consolidation requirements. If the statement of financial condition, filed on Part II or Part IIA of the FOCUS

report, is not on a consolidated basis, or if consolidation on Part II or Part IIA of the FOCUS Report is on a “one line” (equity) basis, it may differ from the statement reported on by the independent auditor. The SEC requires that such differences, if material, be disclosed in a note to the audited financial statements or included as supplementary information.

[§]On February 23, 1999, the FASB released an exposure draft (revised) of a proposed FASB Statement, *Consolidated Financial Statements: Purpose and Policy—Revision of Exposure Draft* issued October 16, 1995, that, in addition to other matters, would supersede FASB Statement No. 94. The FASB decided in 2001 to temporarily suspend work on consolidation policy issues, and focus its efforts on developing interpretive guidance for special situations, in particular variable interest entities. However, following the issuance of FASB Interpretation No. 46R, *Consolidation of Variable Interest Entities*, the FASB decided to resume work on certain issues related to consolidation policy.

Currently, the FASB has on its agenda a long-term project entitled *Consolidations: Policy and Procedure* to develop comprehensive accounting guidance on accounting for affiliations between entities, including reconsideration of ARB No. 51, *Consolidated Financial Statements*. The International Accounting Standards Board (IASB) also has an active project on its agenda to reconsider its guidance in this area. In April 2004, the IASB and FASB agreed that an objective of both their projects is the development of a common, high-quality standard on consolidation policy. The objective of this research project is to identify and develop plans for the next steps in achieving the FASB’s long-term objectives, including plans for coordinating the activities of the FASB with those of the IASB. The FASB began those staff research and planning activities in late 2005.

Assets);[¶] and FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*. Although FASB Statement No. 144 amended paragraph 2 of ARB No. 51 to eliminate the temporary control exception to consolidation, that amendment was not intended to apply to the prevalent industry practice described above.

[¶]The FASB has on its agenda a long-term project entitled *Consolidations: Policy and Procedure* to develop comprehensive accounting guidance on accounting for affiliations between entities, including reconsideration of ARB No. 51, *Consolidated Financial Statements*. The International Accounting Standards Board (IASB) also has an active project on its agenda to reconsider its guidance in this area. In April 2004, the IASB and FASB agreed that an objective of both of their projects is the development of a common, high-quality standard on consolidation policy. The objective of this research project is to identify and develop plans for the next steps in achieving the FASB’s long-term objectives, including plans for coordinating the activities of the FASB with those of the IASB. The FASB began those staff research and planning activities in late 2005.

D12. AICPA Audit and Accounting Guide, *Construction Contractors*, is amended as follows:

a. Paragraph 3.17:

Accordingly, a controlling venturer should account for an ownership interest in excess of 50 percent in a corporate venture under principles of accounting applicable to investments in subsidiaries, in accordance with Accounting Research Bulletin (ARB) No. 51, *Consolidated Financial Statements*, as amended. Exceptions to consolidation should be based on the examples in ARB No. 51. FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities* (FASB Interpretation No. 46(R)) addresses consolidation by business enterprises of entities, which have one or more of the following characteristics: (1) the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by any parties, including the equity holders, (2) the equity investors do not have the characteristics of a controlling financial interest, or (3) the equity investors have voting rights that are not proportionate to their economic interests, and the activities of the entity involve or are conducted on behalf of an investor with a disproportionately small voting interest. An entity subject to consolidation according to the provisions of this Interpretation is referred to as a variable interest entity (VIE). FASB Interpretation No. 46(R) provides guidance on how entities should assess

b. Paragraph 7.37:

Some broker-dealers may make investments in the form of equity or provide financing to another entity in connection with financial-restructuring transactions. These investments may take many forms, including a direct investment or an investment in a company (sometimes referred to as a *bridge company*) that is established for the purpose of accumulating funds from several sources sufficient to make the investment. These investments should be presented at fair value, which is usually based on management’s good-faith determination in the absence of a ready market. Prevalent industry practice is generally not to consolidate majority-owned investee companies because control of such companies is likely to be temporary (refer to paragraph 2 of Accounting Research Bulletin (ARB) No. 51, *Consolidated Financial Statements*, as amended by FASB Statement No. 94, *Consolidation of All Majority-owned Subsidiaries*, and FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived*

interests in certain other entities (VIEs) in determining whether to consolidate that entity. Interpretation No. 46(R) may impact the way construction contractors account for and report their investments in construction joint ventures. The Interpretation also requires disclosures about VIEs that the company is not required to consolidate but in which it has a significant variable interest. The FASB has issued and proposed several FSPs related to Interpretation No. 46(R) that may be of interest to construction contractors and their auditors.^{5,6} Please refer to the FASB Web site at www.fasb.org for the status of FSPs at any point. Minority shareholders in a corporate venture should account for their investment using the principles applicable to investments in common stock in APB Opinion No. 18 or in FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, as appropriate.

b. Paragraph 4.03:

For the purpose of presenting financial condition, results of operations, and cash flows of a group of affiliated companies that generally conduct their construction operations as, in effect, a single economic unit, combined financial statements are preferable unless consolidated financial statements are appropriate under ARB No. 51, as amended by FASB Statement No. 94, *Consolidation of All Majority-Owned Subsidiaries*, FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, or FASB Interpretation No. 46(R).³ In determining the need for combined financial statements, a group of affiliated companies should be viewed as a single economic unit if the members of the group are under common control and if their operations are closely interrelated and economically interdependent.

c. In the sample financial statements in Appendix F and Schedule 1 in Appendix G, all instances of *minority interest* are replaced with *noncontrolling interest*.

D13. AICPA Audit and Accounting Guide, *Depository and Lending Institutions: Banks and Savings Institutions, Credit Unions, Finance Companies and Mortgage Companies*, is amended as follows:

a. Paragraph 7.83:

EITF Issue No. 89-18 did not address accounting for the subsequent sale of the securities to an

affiliate or accounting in consolidated financial statements; however, the SEC staff observer at the EITF meeting noted that gain recognition would not be appropriate when the securities are sold to an affiliate. Further, paragraph 6 of Accounting Research Bulletin (ARB) No. 51, *Consolidated Financial Statements*, as amended, states that consolidated financial statements should not include gain or loss on transactions among the entities~~companies~~ in the consolidated group.

b. Paragraph 12.51:

In accordance with APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*,¹⁶ the equity method of accounting should be used if the institution has the ability to exercise significant influence over the operating and financial policies of the investee or CUSO. All~~Majority-owned~~ subsidiaries should be included in the consolidated financial statements of the parent in accordance with FASB Statement No. 94 and Accounting Research Bulletin (ARB) No. 51, *Consolidated Financial Statements*, as amended. In addition, to address consolidation by business entities with certain characteristics, FASB Interpretation No. 46, *Consolidation of Variable Interest Entities* (revised December 2003) (FIN No. 46(R)),¹⁷ clarified the application of ARB No. 51, *Consolidated Financial Statements*, to certain entities in which equity investors do not have the characteristics of a controlling interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support.

c. Paragraph 21.26:

Accounting Research Bulletin (ARB) No. 51, *Consolidated Financial Statements*, as amended by FASB Statement No. 94, *Consolidation of All Majority-Owned Subsidiaries*, and FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, requires consolidation of all ~~majority-owned~~ subsidiaries unless control does not rest with the majority owner. FASB Statement No. 94 requires consolidation of a majority-owned subsidiary even if it has *nonhomogeneous* operations, a large ~~minority~~noncontrolling interest, or a foreign location. FASB Statement No. 94 also precludes use of parent-company financial statements prepared for issuance to stockholders as the financial statements of the primary reporting entity.

The statement requires that summarized information about the assets, liabilities, and results of operations (or separate statements) of previously unconsolidated majority-owned subsidiaries continue to be provided after those subsidiaries are consolidated. Furthermore, to address consolidation by business entities with certain characteristics, FASB Interpretation No. 46,^{3,4,5} *Consolidation of Variable Interest Entities* (revised December 2003) (FIN No. 46(R)), clarified the application of ARB No. 51, *Consolidated Financial Statements*, to certain entities in which equity investors do not have the characteristics of a controlling interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. Insurance subsidiaries of financial institutions may participate in variable interest entities through investing in structured investments, such as asset-backed securities, synthetic asset-backed securities and catastrophe bonds, certain structured reinsurance transactions, joint ventures without substantive operations, financial guarantees, debt issuance vehicles, synthetic leases, collateralized bond obligation issuances, or limited partnerships. In

addition, separate accounts of life insurance entities as described in the AICPA Audit and Accounting Guide *Life and Health Insurance Entities*, are not subject to consolidation according to the requirements of FIN No. 46(R).

D14. AICPA Audit and Accounting Guide, *Life and Health Insurance Entities*, is amended as follows:

a. Paragraph 8.84:

Some stock life insurance entities that issue participating contracts may have limitations on the amount of earnings on business that may inure to the stockholders. The contract holders' share of earnings on business, which cannot be expected to inure to the stockholders, is excluded from stockholders' equity by a charge to operations and a credit to an appropriate liability account relating to participating policyholder funds ~~in a manner similar to the accounting for earnings applicable to minority interests~~. Dividends declared or paid to participating policyholders are charged to that liability account. Dividends declared or paid on such business, in excess of the liability account, are charged to operations.

