

**Notice to Readers
of this
Summary of FASB Tentative Decisions on
Noncontrolling Interests
as of July 27, 2004**

The following “summary of FASB tentative decisions” summarizes the decisions reached by the FASB for noncontrolling interests. Issues related to noncontrolling interests were addressed by the FASB and the IASB (the “Boards”) as part of their joint purchase method procedures project (Phase II). The Boards plan to develop common Exposure Drafts of their proposed Statements on accounting for business combinations. Those Exposure Drafts will incorporate (1) the decisions reached in Phase II and (2) the decisions reached in the Boards’ separate Phase I projects, which led to the issuance of FASB Statement No. 141, *Business Combinations*, and IASB IFRS 3, *Business Combinations*. The Boards do not plan to develop common Exposure Drafts of their proposed Statements on noncontrolling interests. However, because the issues are interrelated, the Boards decided to issue the Exposure Draft of a proposed Statement on noncontrolling interests and the Exposure Draft of a proposed Statement on business combinations at the same time. To provide the FASB and the IASB with sufficient time to develop the common Exposure Drafts of their proposed Statements on accounting for business combinations, the Boards moved the expected issuance date of their Exposure Drafts to the fourth quarter of 2004.

The following summary is provided by the FASB staff in a form that is similar to a proposed Statement. That format is for purposes of illustrating how the decisions reached would (1) revise ARB No. 51, *Consolidated Financial Statements*, and (2) amend or affect other guidance. Certain sentences in this summary are shaded. The shaded sentences identify the guidance carried forward from ARB 51, as amended, that the FASB did not redeliberate in Phase II. Any modifications to those shaded sentences are shown in marked format (additions or ~~deletions~~). They result from efforts to improve the consistency of those sentences with existing guidance and the decisions the FASB reached in the Phase II project.

This summary is not an Exposure Draft and has not been subject to a final review and ballot by the Board. Official positions of the FASB are determined only after the Board completes its extensive due process and deliberations. Thus, this summary does not change current accounting requirements for accounting and reporting of noncontrolling interests in subsidiaries. It is for information purposes only so that constituents have an opportunity to review the proposed changes while the Boards continue their efforts at developing their common Exposure Drafts on business combinations for public comment. In addition, the FASB staff may update this summary periodically to improve the guidance or based on comments received from the Boards or constituents.

This summary is not a formal request for comments under the FASB’s due process procedures. However, readers that have questions or comments about the project or decisions reached to date may send them to the FASB staff by email to bcproject@fasb.org.

**Summary of FASB Tentative Decisions on
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TABLE OF CONTENTS**

	Paragraph Numbers
Notice to Readers.....	—
Summary	—
Standard	1–40
Introduction.....	1–4
Standards of Financial Accounting and Reporting:	
Scope.....	5
Purpose of Consolidated Financial Statements.....	6
Consolidation Policy	7–9
Consolidation Procedure Generally	10–19
Elimination of Intercompany Investments	10–15
Stock Dividends of Subsidiaries.....	16
Combined Statements.....	17–18
Parent-Company Statements	19
Reporting Noncontrolling Interests in Subsidiaries.....	20–29
Reporting Noncontrolling Interests in the Consolidated Statement of Financial Position	20
Attributing Consolidated Net Income and Consolidated Comprehensive Income to the Controlling and Noncontrolling Interests	21–22
Changes in Ownership Interests in a Subsidiary	23–24
Reporting Earnings per Share	25–29
Loss of Control of Subsidiaries	30–34
Calculating the Gain or Loss When Control of a Subsidiary Is Lost.....	31–33
Guidance for When Multiple Transactions That Result in the Loss of Control of a Subsidiary Should Be Viewed as One	34
Disclosures.....	35–36
Effective Date and Transition	37–40
Implementation Guidance	A1–A15
Amendments to Existing Pronouncements	C1–C20
Impact on Related EITF Issues and SEC and AICPA Guidance.....	D1–D4
Glossary	E1

Summary

This proposed Statement would provide standards for consolidated financial statements of a parent and its affiliates. It addresses when entities should be included in consolidated financial statements and the procedures for preparing consolidated financial statements. This proposed Statement also would establish standards for the accounting and reporting of noncontrolling interests (sometimes referred to as *minority interests*) in consolidated financial statements and for the loss of control of subsidiaries.

This proposed Statement would replace Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, as amended by FASB Statement No. 94, *Consolidation of All Majority-Owned Subsidiaries*. It would carry forward, without reconsideration, the provisions of ARB 51, as amended, related to consolidation purpose and policy, and certain of the provisions related to consolidation procedure.

This proposed Statement is being issued concurrently with proposed FASB Statement No. 141 (revised 2005), *Business Combinations*, which addresses the accounting and reporting for acquisitions of businesses, including acquisitions of less than 100 percent controlling ownership interests.

Reasons for Issuing This Proposed Statement

The primary reasons for issuing this proposed Statement are to:

1. **Reconsider and improve the consistency of the procedures used in accounting for and reporting noncontrolling interests.** Diversity in practice exists for the accounting and reporting of noncontrolling interests because of an absence of clear accounting guidance. Noncontrolling interests have been reported as liabilities, as equity, or as “mezzanine” items on a separate line item between liabilities and equity.

This proposed Statement would provide the accounting and reporting guidance that resolves those inconsistent practices and specifies that noncontrolling interests in subsidiaries are part of equity.

2. **Improve the relevance and transparency of information provided to investors, creditors, and other users of financial statements.** The Board believes that this proposed Statement, in conjunction with Statement 141(R), would improve the relevance and transparency of information. Statement 141(R) would require that the assets (including goodwill) and liabilities of acquired businesses that are not wholly owned be recognized at their fair values (with certain exceptions) rather than measured in part at fair value, based on the percentage of ownership interest acquired, and in part at carryover basis. This proposed Statement would require that the subsequent acquisition of some or all of the noncontrolling interests in a subsidiary be accounted for as a capital transaction. In combination, those requirements would eliminate the current practice of recognizing layers at fair value each time an interest is acquired and would, therefore, improve the relevance and transparency of financial information.
3. **Improve international comparability.** This proposed Statement is being issued as part of a joint effort with the International Accounting Standards Board (IASB) to promote the international convergence of accounting and reporting standards for noncontrolling interests. The Board believes that converging to a common set of high-quality financial accounting standards on an international basis improves the comparability of financial information around the world and simplifies the accounting for enterprises that issue financial statements under both U.S. generally accepted accounting principles and international accounting standards.

Differences between This Proposed Statement and ARB 51

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

- The equity interests of noncontrolling shareholders, partners, or other equity holders in subsidiaries would be accounted for and presented in equity, separately from the parent shareholders' equity, rather than as liabilities or as "mezzanine" items between liabilities and equity.

- Net income or loss and each component of other comprehensive income would be attributed to the controlling and noncontrolling interests based on relative ownership interests unless the controlling and noncontrolling interests have entered into an arrangement that requires a different attribution. In that case, net income or loss or the components of other comprehensive income would be attributed to the controlling and noncontrolling interests based on the contractual requirements of that arrangement.
- Losses attributable to the noncontrolling interest in excess of the noncontrolling interest in the equity capital of the subsidiary would be attributed to the noncontrolling interest rather than to the controlling interest.
- Changes in ownership interests in the subsidiary after control is obtained that do not result in a loss of control of the subsidiary would be accounted for as capital transactions. The difference between the amount by which the noncontrolling interest is adjusted and the consideration paid or received, if any, would be recognized directly in equity (additional paid-in capital). No gain or loss would be recognized in consolidated net income. Thus, the acquisition of some or all of the noncontrolling interests in a subsidiary would not be accounted for by the purchase method as in current practice. That is because at the time the parent obtains control of the subsidiary, the assets (including goodwill) and liabilities of the subsidiary would be recorded at their fair values in accordance with Statement 141(R) rather than in part at fair value and in part at carryover basis.
- Entities with one or more partially owned subsidiaries would be required to provide in notes to the consolidated financial statements a separate schedule that shows the effects of transactions with noncontrolling interests on the equity attributable to the controlling shareholders. Entities that present earnings-per-share data also would be required to disclose in that schedule an additional per-share metric that includes in the numerator the effects of equity transactions with noncontrolling interests.
- On the date control of a subsidiary is lost, any retained noncontrolling investment in a former subsidiary would be remeasured to its fair value and a gain or loss, if any, would be recognized in consolidated income.

How the Changes in This Proposed Statement Would Improve Financial Reporting

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

Also, because the FASB and the IASB have worked together to reach the same conclusions on the noncontrolling interests and the loss of control of subsidiaries issues

addressed in this proposed Statement, the FASB and IASB have taken another important step toward the convergence of their standards.

How the Conclusions in This Proposed Statement Relate to the FASB’s Conceptual Framework

This proposed Statement would result in greater consistency with the FASB’s conceptual framework because it would require noncontrolling interests to be accounted for and reported as equity, separately from the parent shareholders’ equity. In current practice, noncontrolling interests in the equity of subsidiaries are reported in the consolidated financial statements of the parent as liabilities, as equity, or as “mezzanine” items between liabilities and equity. The display of noncontrolling interests as liabilities has no conceptual support because noncontrolling interests do not meet the definition of liabilities as defined in paragraph 35 of FASB Concepts Statement No. 6, *Elements of Financial Statements*. Not one of the entities involved—the parent, the subsidiary, or the consolidated entity—is obligated to transfer assets or provide services to the owners that hold equity interests in the subsidiary. Also, Concepts Statement 6 defines three elements of a statement of financial position: assets, liabilities, and equity (or net assets). The display of noncontrolling interests as mezzanine items would require that a new element—noncontrolling interests in consolidated subsidiaries—be created specifically for consolidated financial statements; however, the Board believes that no compelling reason exists to create such a new element. A view of consolidated financial statements as those of a single economic entity supports classification as equity because noncontrolling shareholders, partners, or other equity holders in subsidiaries are owners of a residual interest in a component of the consolidated entity.

Benefits and Costs

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

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

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

Transition and Effective Date of This Proposed Statement

This proposed Statement would be effective for financial statements issued for fiscal years beginning after December 15, 2005. Earlier application would be encouraged in financial statements that have not been issued previously; however, if adopted earlier, the provisions of this proposed Statement would be required to be adopted concurrent with the adoption of proposed Statement 141(R).

This proposed Statement would require retroactive application of its presentation and disclosure requirements; however, it would preclude retroactive application of the following provisions:

- The requirements for accounting for increases in a parent's controlling ownership interest in a subsidiary (acquisitions of noncontrolling interests). Therefore, those requirements do not apply to increases that occurred before adoption of this Statement. In addition, if a parent's ownership interest in its subsidiary increases

after adoption of this Statement, that event should be accounted for as a capital transaction and the assets and liabilities of the subsidiary should not be restated in the consolidated financial statements.

- The requirements for the accounting for the loss of control of one or more subsidiaries. Therefore, an entity should not restate any gain or loss recognized before the adoption of this Statement on the loss of control of one or more subsidiaries. Also, an entity should not restate the carrying amount of any retained noncontrolling equity investment in a former subsidiary for which control was lost before adoption of this Statement.

Proposed Statement of Financial Accounting Standards

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

a replacement of ARB 51

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

INTRODUCTION

1. This Statement provides standards for **consolidated financial statements**¹ of a **parent** and its **affiliates**. It addresses when entities should be included in consolidated financial statements and the procedures for preparing consolidated financial statements. This Statement also establishes standards for the accounting and reporting of **noncontrolling interests** (sometimes referred to as minority interests) in consolidated financial statements and for the loss of control of **subsidiaries**.

2. This proposed Statement replaces Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, as amended by FASB Statement No. 94, *Consolidation of All Majority-Owned Subsidiaries*. It carries forward, without reconsideration, the provisions of ARB 51, as amended, related to consolidation purpose and policy, and certain of the provisions related to consolidation procedure.

3. This Statement is being issued concurrently with FASB Statement No. 141 (revised 2005), *Business Combinations*, which addresses the financial accounting and reporting for a business combination by an acquiring entity, including acquisitions in which less than a 100 percent controlling ownership interest is acquired.

¹ Terms defined in Appendix E, the glossary, are set forth in **boldface type** the first time they appear.

4. Appendix A to this Statement provides implementation guidance for the application of the provisions related to the accounting and reporting of noncontrolling interests and the loss of control of subsidiaries. That appendix is an integral part of the standards provided in this Statement. Appendix B [not included in this summary] provides background information and the basis for the Board's conclusions. Appendix C provides amendments to existing accounting pronouncements. Appendix D provides an analysis of the effect of this Statement on pronouncements that provide guidance on the accounting and reporting of noncontrolling interests issued by the Emerging Issues Task Force (EITF), the Securities and Exchange Commission (SEC), and the American Institute of Certified Public Accountants (AICPA). Appendix E provides a glossary of terms as used in this Statement.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Scope

5. This Statement does not apply to not-for-profit organizations.² [ARB 51, Notes, paragraph 3.]

² Paragraph 5 of SOP 94-3, *Reporting Related Entities by Not-for-Profit Organizations*, requires that not-for-profit organizations with a controlling financial interest in a for-profit entity through direct or indirect ownership of a majority voting interest in that entity should follow the guidance in ARB 51, as amended, in determining whether the financial position, results of operations, and cash flows of the for-profit entity should be included in the not-for-profit organization's financial statements. This Statement replaces ARB 51.

Purpose of Consolidated Financial Statements

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

Consolidation Policy

7. The usual condition for a controlling financial interest is ownership of a majority voting interest, and, therefore, as a general rule ownership by one company, directly or indirectly, of more than 50 ~~over fifty~~ percent of the outstanding voting shares of another company is a condition pointing toward consolidation. However, there are exceptions to this general rule. A majority-owned subsidiary shall not be consolidated if control does not rest with the majority owner (as, for instance, if the subsidiary is in legal reorganization or in bankruptcy or operates under foreign exchange restrictions, controls, or other governmentally imposed uncertainties so severe that they cast significant doubt on the parent's ability to control the subsidiary).³ [ARB 51 paragraph 2, as amended by Statement 94.]

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

8. All majority-owned subsidiaries—all companies in which a parent has a controlling financial interest through direct or indirect ownership of a majority voting interest—shall be consolidated except those described in the last sentence of paragraph 7 2. [ARB 51 paragraph 3, as amended by Statement 94.]

9. A difference in fiscal periods of a parent and a subsidiary does not of itself justify the exclusion of the subsidiary from consolidation. It ordinarily is feasible for the subsidiary to prepare, for consolidation purposes, statements for a period that ~~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 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. [ARB 51 paragraph 4.]

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

Consolidation Procedure Generally

Elimination of Intercompany Investments

10. In the preparation of consolidated financial statements, intercompany balances and transactions should be eliminated. This includes intercompany open account balances, security holdings, sales and purchases, interest, dividends, etc. As consolidated financial statements are based on the assumption that they represent the financial position and operating results of a single business enterprise, such statements should not include gain or loss on transactions among the companies in the group. Accordingly, any intercompany profit or loss on assets remaining within the group should be eliminated; the concept usually applied for this purpose is gross profit or loss. (Refer to ~~See also~~ paragraph ~~14~~ 47.) [ARB 51 paragraph 6, as amended by Statement 71]

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

~~When one company purchases two or more blocks of stock of another company at various dates and eventually obtains control of the other company, the date of acquisition (for the purpose of preparing consolidated statements) depends on the circumstances. If two or more purchases are made over a period of time, the earned surplus of the subsidiary at acquisition should generally be determined on a step by step basis; however, if small purchases are made over a period of time and then a purchase is made which results in control, the date of the latest purchase, as a matter of convenience, may be considered as the date of acquisition. Thus there would generally be included in consolidated income~~

for the year in which control is obtained the postacquisition income for that year, and in consolidated earned surplus the postacquisition income of prior years, attributable to each block previously acquired. For example, if a 45% interest was acquired on October 1, 1957 and a further 30% interest was acquired on April 1, 1958, it would be appropriate to include in consolidated income for the year ended December 31, 1958, 45% of the earnings of the subsidiary for the three months ended March 31, and 75% of the earnings for the nine months ended December 31, and to credit consolidated earned surplus in 1958 with 45% of the undistributed earnings of the subsidiary for the three months ended December 31, 1957. [ARB 51 paragraph 10.]

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

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

14. The amount of intercompany profit or loss to be eliminated in accordance with paragraph ~~10~~ 6 is not affected by the existence of a noncontrolling ~~minority~~ interest. The complete elimination of the intercompany profit or loss is consistent with the underlying assumption that consolidated financial statements represent the financial position and operating results of a single business enterprise. The elimination of the intercompany profit or loss ~~shall~~ may be allocated ~~proportionately~~ between the controlling ~~majority~~ and noncontrolling ~~minority~~ interests. [ARB 51 paragraph 14.]

~~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~~ [ARB 51, paragraph 15 deleted].

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

Stock Dividends of Subsidiaries

16. Occasionally, subsidiary companies capitalize earned surplus (retained earnings) arising since acquisition, by means of a stock dividend or otherwise. This does not

require a transfer to capital surplus on consolidation, ~~because inasmuch as~~ the retained earnings in the consolidated financial statements should reflect the accumulated earnings of the consolidated group not distributed to the shareholders of, or capitalized by, the parent company. [ARB 51 paragraph 18.]

Combined Statements

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

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

Parent-Company Statements

19. In some cases parent-company statements may be needed, in addition to consolidated financial statements, to indicate adequately the position of bondholders and other creditors or preferred stockholders of the parent.⁴ Consolidating statements, in which one column is used for the parent company and other columns for particular subsidiaries or groups of subsidiaries, often are an effective means of presenting the pertinent information. [ARB 51 paragraph 24.]

Reporting Noncontrolling Interests in Subsidiaries

Reporting Noncontrolling Interests in the Consolidated Statement of Financial Position

20. Noncontrolling interests in the net assets of subsidiaries shall be reported in the consolidated statement of financial position within equity, separately from the parent shareholders' equity.⁵ That amount shall be clearly identified and labeled, for example, as *noncontrolling interest in subsidiaries*, to distinguish it from the components of equity of the parent, which includes the parent's **controlling interest** in its subsidiaries. (Paragraph A5 illustrates this requirement.)

⁴ This Statement requires consolidated financial statements as the general-purpose financial statements of companies having one or more subsidiaries; thus, parent-company statements are not a valid substitute for consolidated financial statements.

⁵ Financial instruments classified as liabilities, such as those classified as liabilities under FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, are not noncontrolling interests for purposes of this Statement.

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

21. Net income or loss and each component of *other comprehensive income*⁶ shall be attributed to the controlling and noncontrolling interests. That attribution shall be made based on relative ownership interests unless the controlling and noncontrolling interests have entered into a contractual arrangement that requires net income or loss or the components of other comprehensive income to be attributed differently between them. In that case, net income or loss or the components of other comprehensive income shall be attributed to the controlling and noncontrolling interests based on the contractual requirements of that arrangement.⁷

22. Losses applicable to the controlling and noncontrolling interests in a consolidated subsidiary may exceed their interests in the subsidiary's equity. The excess, and any further losses applicable to the controlling and noncontrolling interests, shall be attributed to those interests.

Changes in Ownership Interests in a Subsidiary

23. Changes in ownership interests in a subsidiary after control is obtained that do not result in a loss of control shall be accounted for as capital 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 on such transactions. The carrying

⁶ For purposes of this Statement, the term *other comprehensive income* is used with the same meaning as in FASB Statement No. 130, *Reporting Comprehensive Income*. That Statement uses the term *other comprehensive income* to refer to revenues, expenses, gains, and losses that under generally accepted accounting principles are included in comprehensive income but excluded from net income.

⁷ Paragraph 38 of FASB Statement No. 142, *Goodwill and Other Intangible Assets*, as amended, provides guidance for assigning goodwill impairment losses to the controlling and noncontrolling interests of a partially owned subsidiary.

amount of the noncontrolling interest shall be adjusted to reflect the change in its interest in the subsidiary's net assets. Any difference between the amount by which the noncontrolling interest is adjusted and the consideration paid or received, if any, shall be recognized directly in equity (for example, additional paid-in capital).⁸

24. If a change in ownership interests occurs without a change in control, the assets, liabilities and equity, including accumulated other comprehensive income, of the subsidiary shall be reattributed between the controlling and noncontrolling interests. On the date control is obtained, the subsidiary's assets, other than goodwill, and liabilities are attributed to the controlling and noncontrolling interests based on ownership interests. However, the amount of goodwill attributed to the controlling and noncontrolling interests on the date control is obtained may not represent their relative ownership interests in the subsidiary's recognized goodwill.⁹ Therefore, following a change in ownership interests in a subsidiary, goodwill shall be reattributed between the controlling and noncontrolling interests based on the relative carrying amounts of goodwill allocated to them.

⁸ Increases in a parent's ownership interest in an investee that result in the parent's obtaining control of and consolidating that investee are accounted for under paragraph 24 of Statement 141(R) if the investee meets the definition of a business as provided in that Statement. Decreases in a parent's ownership interest in a subsidiary that result in the parent's losing control of that subsidiary are accounted for under paragraphs 31–34 of this Statement.

⁹ This would arise, for example, if an 80 percent controlling interest in a subsidiary is purchased at an amount that is greater than 80 percent of the fair value of that subsidiary taken as a whole. Paragraph 49 of Statement 141(R) describes the requirement for allocating goodwill between the controlling and noncontrolling interests on the date control is obtained if a less than 100 percent controlling ownership interest is acquired.

Reporting Earnings per Share

25. If an entity has one or more partially owned subsidiaries and presents earnings-per-share data in accordance with FASB Statement No. 128, *Earnings per Share*, the entity shall also follow the guidance in paragraphs 26–29.

26. The calculation of earnings-per-share data shall be based on and designated as the amount of income attributable to the *controlling interest* together with other adjustments required by Statement 128.

27. Basic and diluted per-share amounts¹⁰ attributable to the controlling interest shall be presented for:

- a. Income from continuing operations and net income on the face of the consolidated income statement
- b. If applicable, discontinued operations, extraordinary items, or cumulative effect of a change in accounting principle either on the face of the consolidated income statement or in notes to the consolidated financial statements.¹¹

(Paragraphs A6 and A9 illustrate this requirement.)

28. An entity that reports a discontinued operation, an extraordinary item, or the cumulative effect of a change in accounting principle shall use income from continuing operations attributable to the controlling interest as the “control number” for purposes of

¹⁰ Consistent with paragraph 36 of Statement 128, entities with simple capital structures, that is, those with only common stock outstanding, are not required to present diluted per-share amounts.

¹¹ An entity with one or more partially owned subsidiaries that does not report a discontinued operation but reports an extraordinary item or the cumulative effect of a change in accounting principle in the period shall use that line item (for example, *income before extraordinary items attributable to the controlling interest* or *income before accounting change attributable to the controlling interest*) instead of *income from continuing operations attributable to the controlling interest*.

determining whether a security is dilutive or antidilutive under the provisions of Statement 128.

29. In calculating earnings-per-share data, an entity shall not adjust the numerator of the earnings-per-share calculation for any increase or decrease to equity (additional paid-in capital) related to changes in ownership interests in a subsidiary that were accounted for as capital transactions in accordance with paragraph 23.

Loss of Control of Subsidiaries

30. Loss of control of a subsidiary can occur through the sale or contribution of all or part of an ownership interest that represents a controlling ownership interest by the parent or members of the consolidated group or through other means.

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

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

- a. The aggregate of the proceeds, if any, from the transaction that resulted in the loss of control and the fair value of any retained noncontrolling equity investment in the former subsidiary at the date control is lost
- b. The parent's interest in the former subsidiary's net assets at the date control is lost.¹²

32. If the subsidiary is partially owned by the parent before control is lost, the noncontrolling interest's share of the carrying amount of the net assets of the former subsidiary at the date control is lost shall be derecognized at that date with a corresponding derecognition of the carrying amount of noncontrolling interests. No gain or loss is recognized for the derecognition of the noncontrolling interest. (Paragraphs A10–A15 illustrates these requirements.)

33. The loss of control of a subsidiary is an event that is within the scope of FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Therefore, if applicable, the requirements of Statement 144 should be applied in conjunction with the requirements of this Statement. (Paragraph A15 describes the interaction of this Statement with Statement 144.)

Guidance for When Multiple Transactions That Result in the Loss of Control of a Subsidiary Should Be Viewed as One

34. Control of a subsidiary may be lost in two or more transactions (or arrangements). Each such transaction shall be accounted for separately unless conditions indicate that those transactions should be accounted for as one. If any one or more of the following indicators are present, the presumption is that the transactions should be accounted for as

¹² The parent's interest in the former subsidiary's net assets includes the controlling interest's share of the other comprehensive income of the former subsidiary.

a single transaction unless it can be clearly demonstrated that such accounting would be inappropriate:

- a. They are entered into at the same time or as part of a continuous sequence and in contemplation of one another.
- b. In substance, they form a single transaction that achieves, or is designed to achieve, an overall commercial effect.
- c. One or more of the transactions considered on their 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.
- d. The occurrence of one transaction is dependent on the other occurring.

Disclosures

35. An entity with one or more partially owned subsidiaries shall disclose:

- a. Separately, on the face of the consolidated financial statements:
 - i. Consolidated net income and consolidated comprehensive income
 - ii. Consolidated net income and consolidated comprehensive income attributable to the controlling interest
 - iii. Consolidated net income and consolidated comprehensive income attributable to the noncontrolling interest.¹³

(Paragraphs A6 and A7 illustrates these requirements.)

- b. Amounts attributable to the *controlling interest* for:
 - i. Income from continuing operations
 - ii. Discontinued operations
 - iii. Extraordinary items
 - iv. Cumulative effect of changes in accounting principles
 - v. Components of other comprehensive income.

(Paragraphs A7 and A9 illustrate these requirements.)

¹³ Because both the controlling interest and the noncontrolling interest are part of the equity of the consolidated group, the amounts attributed to noncontrolling interest is not income or an expense. Revenues, expenses, gains, and losses shall be reported on the face of the consolidated income statement only at consolidated amounts.

- c. The numerators used in calculating basic and diluted earnings per share, if presented, for income from continuing operations and net income if those numerators differ from the amounts disclosed in accordance with paragraphs 35(a)(ii) and 35(b)(i).¹⁴ (Paragraph A9 illustrates this requirement.)
- d. A reconciliation of the changes in the noncontrolling interest from the amount reported in equity as of the beginning of each reporting period to the amount reported at the end of each reporting period. That reconciliation shall be provided in the consolidated statement of changes in equity, if presented, otherwise in notes to consolidated financial statements, and shall separately disclose:
- i. Net income attributable to the noncontrolling interest for the period
 - ii. Investments by and distributions to noncontrolling interests acting in their capacity as owners
 - iii. Each component of other comprehensive income for the period
- (Paragraph A8 illustrates this requirement.)
- e. A separate schedule that shows the effects of any transactions with noncontrolling interests on the equity attributable to the controlling shareholders in notes to the consolidated financial statements. Entities that present earnings-per-share data also shall disclose on that schedule an additional per-share metric that includes in the calculation the effects of any equity transactions with noncontrolling interests. The

¹⁴ The numerators used to compute basic and diluted earnings per share for income from continuing operations and net income may be the same as the amounts disclosed in accordance with paragraphs 35(a)(ii) and 35(b)(i). However, if the numerators differ, they also shall be disclosed. For example, Statement 128 requires income available to common stockholders to be computed by deducting from income from continuing operations and from net income both (a) the dividends declared in the period on preferred stock (whether or not paid) and (b) the dividends accumulated for the period on cumulative preferred stock (whether or not earned). Therefore, amounts attributable to the controlling interest for income from continuing operations and net income would differ from the amounts used as numerators in calculating earnings-per-share data if the entity declared dividends in the period on preferred stock or had dividends accumulated in the period on cumulative preferred stock.

numerator of that additional per-share metric shall be calculated as the sum of net income attributable to the controlling interest and the effects of equity transactions with noncontrolling interests. The denominator shall be the weighted average number of common shares determined in accordance with Statement 128. (Paragraph A9 illustrates this requirement.)

36. If an entity loses control of a subsidiary, the entity shall disclose the amount of any gain or loss recognized in accordance with paragraph 31 and the caption in the income statement that includes that gain or loss if not separately presented on the face of the income statement. If an entity loses control of a subsidiary but retains a noncontrolling equity investment, the entity shall disclose the portion of the gain or loss related to the remeasurement of the retained interest to its fair value separately from the total gain or loss recognized on the loss of control of the subsidiary.

Effective Date and Transition

37. This Statement shall be effective for financial statements issued for fiscal years beginning after December 15, 2005. Earlier application is encouraged in financial statements that have not been issued previously. However, if adopted earlier, the provisions of this Statement shall be adopted concurrent with the adoption of Statement 141(R). If an entity applies this Statement before its effective date, that fact shall be disclosed.

38. The requirements in paragraphs 5–19 of this Statement have been carried forward from ARB 51 without reconsideration.

39. This Statement requires retroactive application of the following:

- a. Noncontrolling interests shall be reclassified to equity, separate from the parent shareholders' equity, in the consolidated statement of financial position.
- b. Consolidated net income shall be restated to include consolidated net income attributable to both the controlling interest and the noncontrolling interest.
- c. Consolidated net income and the components of other comprehensive income shall be attributed to the controlling and noncontrolling interests in accordance with paragraph 21 of this Statement.
- d. Losses applicable to the noncontrolling interest in a subsidiary that exceeded the noncontrolling interest in the equity capital of the subsidiary that were attributed to the controlling interest in accordance with paragraph 15 of ARB 51 shall be reattributed to the controlling and noncontrolling interests in accordance with paragraphs 21 and 22 of this Statement if the entity controls the subsidiary when this Statement is adopted.
- e. Gains or losses recognized in net income for decreases in a parent's controlling ownership interest in a subsidiary that did not result in a loss of control of that subsidiary ("SAB 51" gains or losses) shall be reclassified from net income to equity (additional paid-in capital) in accordance with paragraph 23 of this Statement.
- f. The disclosures required in paragraphs 35–36 for all periods presented.

40. This Statement precludes retroactive application of the following:

- a. The requirements in paragraph 23 for accounting for increases in a parent's controlling ownership interest in a subsidiary (acquisitions of noncontrolling interests). Therefore, the requirements in paragraph 23 do not apply to increases that occurred before adoption of this Statement. In addition, if a parent's ownership interest in its subsidiary increases after adoption of this Statement, that event shall be accounted for as a capital transaction and the assets and liabilities of the subsidiary shall not be restated in the consolidated financial statements.
- b. The requirements in paragraphs 31–33 for the accounting for the loss of control of one or more subsidiaries. Therefore, an entity shall not restate any gain or loss recognized before the adoption of this Statement on the loss of control of one or more subsidiaries. Also, an entity shall not restate the carrying amount of any retained noncontrolling equity investment in a former subsidiary for which control was lost before adoption of this Statement.

<p style="text-align: center;">The provisions of this proposed Statement need not be applied to immaterial items.</p>
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Appendix A

IMPLEMENTATION GUIDANCE

CONTENTS

	Paragraph Numbers
Introduction.....	A1–A2
Illustrations of the Presentation and Disclosure Requirements for an Entity with One or More Partially Owned Subsidiaries	A3–A9
Consolidated Statement of Financial Position	A5
Consolidated Income Statement	A6
Consolidated Statement of Comprehensive Income	A7
Consolidated Statement of Changes in Equity.....	A8
Additional Schedule that Illustrates the Impact of Transactions with Noncontrolling Interests on the Equity Available to the Controlling Shareholders’ of the Parent.....	A9
Application of the Guidance for Loss of Control of Subsidiaries.....	A10–A15

Appendix A

IMPLEMENTATION GUIDANCE

Introduction

A1. This appendix provides guidance to assist entities in the application of certain provisions of this Statement and is therefore an integral part of the standards provided in this Statement. This appendix discusses generalized situations and provides examples that incorporate simplified assumptions to illustrate how certain provisions of this Statement apply in certain specific circumstances. The examples do not address all possible situations or applications of this Statement.

A2. This Appendix is divided into two sections. Paragraphs A3–A9 provide examples that illustrate one way an entity with one or more partially owned subsidiaries could meet the presentation and disclosure requirements of this Statement. Paragraphs A10–A15 illustrate the application of the loss of control of subsidiaries guidance in paragraphs 31–33.

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

A3. The examples are based on the following assumptions:

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

a. Subsidiary A

- i. As of January 1, 20X6, is 80 percent owned.
- ii. On January 15, 20X6, Subsidiary A purchases a portfolio of securities that it classifies as available for sale. Subsidiary A's available-for-sale securities

(valued at \$112,000 on December 31, 20X6) are sold on January 1, 20X7 for a pretax gain of \$26,667 (\$20,000 after tax).

- iii. On January 30, 20X7, Entity X sells a portion of its interest in Subsidiary A to a third party for \$18,000, reducing its interest to 70 percent. Entity X continues to control Subsidiary A after the transaction. The carrying value of the interest sold is \$16,910, which includes accumulated other comprehensive income of \$1,870. This transaction is accounted for as a capital transaction in accordance with paragraph 23. (The related accumulated other comprehensive income attributable to the interest sold is reattributed to the noncontrolling interests.)
 - iv. On July 1, 20X7, Entity X purchases a portion of the noncontrolling ownership interests in Subsidiary A from the noncontrolling shareholders for \$57,000, increasing its interest to 90 percent. The carrying value of the interest purchased is \$54,900, which includes accumulated other comprehensive income of \$5,400. This transaction is also accounted for as a capital transaction in accordance with paragraph 23. (The related accumulated other comprehensive income attributable to the interest purchased is reattributed to the controlling interest.)
- b. Entity X
- i. Entity X has 200,000 shares of common stock outstanding throughout 20X6 and 20X7 and pays dividends of \$10,000 each year on those common shares. Entity X has no dilutive shares.
 - ii. On June 30, 20X7, Entity X issues 5,000 shares of preferred stock for proceeds of \$50,000. On December 31, 20X7, Entity X pays dividends of \$1 per share on those preferred shares.

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

	20X7			20X6		
	Controlling Interest	Noncontrolling Interests	Consolidated	Controlling Interest	Noncontrolling Interest	Consolidated
Discontinued operations	-	-	-	(5,600)	(1,400)	(7,000)
Extraordinary items	-	-	-	(16,800)	(4,200)	(21,000)
Cumulative effect of accounting change	-	-	-	(2,000)	(500)	(2,500)
<i>Other comprehensive income:</i>						
Foreign currency translation adjustment	4,800	1,200	6,000	6,400	1,600	8,000
Reclassification adjustment—sale of subsidiary stock to noncontrolling interests	(1,870)	1,870	-	-	-	-
Reclassification adjustment—acquisition of subsidiary stock from noncontrolling interests	5,400	(5,400)	-	-	-	-
Net foreign currency translation adjustment	8,330	(2,330)	6,000	6,400	1,600	8,000
Unrealized holding gains (on securities) arising during period	-	-	-	16,000	4,000	20,000
Reclassification adjustment (for securities)	(16,000)	(4,000)	(20,000)	-	-	-
Net unrealized gain on securities	(16,000)	(4,000)	(20,000)	16,000	4,000	20,000
Total other comprehensive income	(7,670)	(6,330)	(14,000)	22,400	5,600	28,000

A4. The following four statements and the additional schedule illustrate the presentation and disclosure requirements of this Statement for entities with one or more less than wholly owned subsidiaries.

Consolidated Statement of Financial Position

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

Entity X
Consolidated Statement of Financial Position
December 31

	<u>20X7</u>	<u>20X6</u>
<i>Assets:</i>		
Cash	\$ 163,530	\$ 177,500
Accounts receivable	205,000	195,000
Available-for-sale securities	-	112,000
Plant and equipment	<u>1,102,500</u>	<u>985,250</u>
Total assets	<u><u>\$ 1,471,030</u></u>	<u><u>\$ 1,469,750</u></u>
<i>Liabilities:</i>		
Accounts payable	\$ 125,500	\$ 112,500
Accrued liabilities	89,000	79,250
Pension liability	131,000	128,000
Notes payable	<u>187,250</u>	<u>318,500</u>
Total liabilities	<u><u>532,750</u></u>	<u><u>638,250</u></u>
<i>Equity:</i>		
Controlling interest:		
Common stock, \$1 par	200,000	200,000
Preferred stock, \$10 par	50,000	-
Paid-in capital	398,990	400,000
Retained earnings	242,900	160,900
Accumulated other comprehensive income	<u>14,330</u>	<u>22,000</u>
Total controlling interest	<u><u>906,220</u></u>	<u><u>782,900</u></u>
Noncontrolling interests in subsidiary	<u>32,060</u>	<u>48,600</u>
Total equity	<u><u>938,280</u></u>	<u><u>831,500</u></u>
Total liabilities and equity	<u><u>\$ 1,471,030</u></u>	<u><u>\$ 1,469,750</u></u>

Consolidated Income Statement

A6. The following consolidated income statement illustrates the requirements in paragraphs 27(a) and 35(a) of this Statement.

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

Consolidated Statement of Comprehensive Income

A7. The following statement of consolidated comprehensive income illustrates the requirements in paragraphs 35(a) and 35(b)(v) of this Statement.

Entity X		
Statement of Consolidated Comprehensive Income		
Year Ended December 31		
	<u>20X7</u>	<u>20X6</u>
Consolidated net income	\$ 121,250	\$ 65,500
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	6,000	8,000
Unrealized gains on securities:		
Unrealized holding gains arising during period	-	20,000
Less: Reclassification adjustment for realized gains included in net income	(20,000)	-
Other comprehensive income (loss), net of tax:	(14,000)	28,000
Total consolidated comprehensive income	107,250	93,500
Less: Consolidated comprehensive income (loss) attributable to noncontrolling interests	17,920	18,700
Consolidated comprehensive income attributable to controlling interest	\$ 89,330	\$ 74,800

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

	<u>20X7</u>	<u>20X6</u>
Controlling interest, net of tax:		
Net income	\$ 97,000	\$ 52,400
Foreign currency translation adjustments	8,330	6,400
Unrealized gains on securities	(16,000)	16,000
Other comprehensive income	(7,670)	22,400
Consolidated comprehensive income	\$ 89,330	\$ 74,800

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

Consolidated Statement of Changes in Equity

A8. The following consolidated statement of changes in equity illustrates the requirements in paragraph 35(d) of this Statement.

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

Year Ended December 31, 20X7										
Controlling Interest							Noncontrolling Interests			
			Accumulated Other					Accumulated Other		Total
	<u>Total</u>	<u>Comprehensive Income</u>	<u>Retained Earnings</u>	<u>Comprehensive Income</u>	<u>Common Stock</u>	<u>Preferred Stock</u>	<u>Paid-in Capital</u>	<u>Noncontrolling Interests</u>	<u>Comprehensive Income</u>	<u>Noncontrolling Interests</u>
Beginning balance	\$ 831,500		\$ 160,900	\$ 22,000	\$ 200,000	\$ -	\$ 400,000	\$ 43,100	\$ 5,500	\$ 48,600
Issuance of preferred stock	50,000					50,000				
Comprehensive income:										
Net income (loss)	121,250	121,250	97,000					24,250		24,250
Other comprehensive income (loss), net of tax:										
Unrealized gains on securities (net of reclassification adjustment)	(20,000)	(20,000)		(16,000)					(4,000)	(4,000)
Foreign currency translation adjustment	6,000	6,000		4,800					1,200	1,200
Other comprehensive income (loss)		(14,000)		(11,200)					(2,800)	(2,800)
Comprehensive income		107,250								
Sale of subsidiary stock to noncontrolling interest	16,130			(1,870)			1,090	15,040	1,870	16,910
Purchase of noncontrolling interest stock by controlling interest	(51,600)			5,400			(2,100)	(49,500)	(5,400)	(54,900)
Dividends declared on common stock	(10,000)		(10,000)							
Dividends declared on preferred stock	(5,000)		(5,000)							
Ending balance	<u>\$ 938,280</u>		<u>\$ 242,900</u>	<u>\$ 14,330</u>	<u>\$ 200,000</u>	<u>\$ 50,000</u>	<u>\$ 398,990</u>	<u>\$ 32,890</u>	<u>\$ (830)</u>	<u>\$ 32,060</u>
Reclassification amount:										
Unrealized holding gains arising during period		\$ -								
Less: Reclassification adjustment for gains included in net income		(20,000)								
Net unrealized gains on securities		<u>\$ (20,000)</u>								

(For illustration purposes, the accumulated other comprehensive income attributable to the noncontrolling interests has been shown separate from the other equity items attributable to the noncontrolling interests. That separate presentation is not required or precluded by this Statement.)

Additional Schedule that Illustrates the Impact of Transactions with Noncontrolling Interests on the Equity Available to the Controlling Shareholders' of the Parent

A9. The following schedule illustrates the requirements in paragraph 35(e) of this Statement. An entity also may use this schedule to meet other disclosure requirements required by this and other Statements, such as those in paragraphs 27, 35(b)(i)–(iv), 35(c) of this Statement.

Entity X
Notes to Consolidated Financial Statements
Net Income Attributable to Common Shares of Controlling Interest and Transfers (To) From
Noncontrolling Interests and Additional Per Share Data
Year Ended December 31

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

	<u>20X7</u>	<u>20X6</u>
Controlling interest:		
Income from continuing operations, net of tax	\$ 121,250	\$ 96,000
Less: Income from continuing operations, net of tax, attributable to noncontrolling interest	<u>24,250</u>	<u>19,200</u>
Income from continuing operations, net of tax, attributable to the controlling interest	<u>97,000</u>	<u>76,800</u>
Less: Preferred stock dividend	<u>5,000</u>	<u>-</u>
Income from continuing operations, net of tax, attributable to common shareholders of the parent	<u>92,000</u>	<u>76,800</u>
Less: Discontinued operations, net of tax	-	(5,600)
Less: Extraordinary item, net of tax	-	(16,800)
Less: Cumulative effect of an accounting change, net of tax	<u>-</u>	<u>(2,000)</u>
Net income attributable to common shareholders of parent	<u>92,000</u>	<u>52,400</u>
Transfers (to) from the noncontrolling interests		
Premium received from sale of controlling interest shares	1,090	-
Premium paid (to) acquire noncontrolling interests shares	<u>(2,100)</u>	<u>-</u>
Net transfers from the noncontrolling interests	<u>(1,010)</u>	<u>-</u>
Change from net income and transfers from the noncontrolling interests	<u>\$ 90,990</u>	<u>\$ 52,400</u>
Per share data:		
Net income (loss) per common share—basic and diluted:		
Income from continuing operations	\$ 0.46	\$ 0.38
Discontinued operations	-	(0.03)
Extraordinary items	-	(0.08)
Cumulative effect of accounting change	<u>-</u>	<u>(0.01)</u>
Net income	<u>0.46</u>	<u>0.26</u>
Net transfers from the noncontrolling interests	<u>(0.01)</u>	<u>-</u>
Net income and transfers from the noncontrolling interests	<u>\$ 0.45</u>	<u>\$ 0.26</u>
Weighted-average common shares outstanding, basic and diluted	<u>200,000</u>	<u>200,000</u>

(If presented, this schedule is required to be provided in notes to the consolidated financial statements.)

Loss of Control of Subsidiaries

A10. Paragraph 31 requires that if control of a subsidiary is lost, a gain or loss shall be recognized in consolidated net income. The gain or loss, if any, is the difference between

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

A11. The following example illustrates the application of paragraphs 31 and 32 of this Statement.

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

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

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

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

A15. The loss of control of a subsidiary is an event that is within the scope of FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Therefore, if a subsidiary is to be disposed of by sale or otherwise, that event should be accounted for in accordance with the requirements of that Statement. Because a subsidiary may be a *component of an entity* under Statement 144, the results of operations of a subsidiary that is disposed of (or that meets the criteria for recognition for classification as held for sale) should be reported in discontinued operations if the criteria in paragraph 42 of Statement 144 are met.

Appendix C

AMENDMENTS TO EXISTING PRONOUNCEMENTS

C1. This Statement replaces ARB No. 51, *Consolidated Financial Statements*, and supersedes FASB Statement No. 94, *Consolidation of All Majority-Owned Subsidiaries*.

C2. APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, is amended as follows:

- a. Paragraph 4 and its related footnote 3:

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

³ See paragraphs 7 and 8 of Statement No. 1XX ~~See paragraphs 2 and 3 of ARB No. 51 as amended by FASB Statement No. 94.~~

- b. Paragraph 14 and its related footnote 4:

Statement 1XX, paragraphs 7 and 8, requires consolidation of all majority-owned subsidiaries except the few that meet conditions described in the last sentence of paragraph 7. The equity method is not a valid substitute for consolidation. Moreover, since Statement 1XX requires the general-purpose financial statements of companies having one or more majority-owned subsidiaries to be consolidated statements, parent-company statements are not

~~a valid substitute for consolidated financial statements. The Board reaffirms the conclusion that investors should account for investments in common stock of unconsolidated domestic subsidiaries by the equity method in consolidated financial statements, and the Board now extends this conclusion to investments in common stock of all unconsolidated subsidiaries (foreign as well as domestic) in consolidated financial statements. The equity method is not, however, a valid substitute for consolidation and should not be used to justify exclusion of a subsidiary when consolidation is otherwise appropriate. The Board also concludes that parent companies should account for investments in the common stock of subsidiaries by the equity method in parent company financial statements prepared for issuance to stockholders as the financial statements of the primary reporting entity.~~⁴

⁴ ~~Paragraphs 7 and 8 of Statement 1XX describes the condition under which a majority-owned subsidiary shall not be consolidated. The limitation in paragraph 7 of Statement 1XX should also be applied as limitations to the use of the equity method. Paragraphs 2 and 3 of ARB No. 51 and paragraph 8 of ARB No. 43, Chapter 12, describe, among other things, the conditions under which a subsidiary should or might not be consolidated. The limitations on consolidation described in paragraph 2 of ARB No. 51 and paragraph 8 of ARB No. 43, Chapter 12, should also be applied as limitations to the use of the equity method. The Board has deferred further consideration of the treatment of foreign subsidiaries in consolidated statements and the treatment of all subsidiaries in parent company statements that are not prepared for issuance to stockholders as the financial statements of the primary reporting entity until the accounting research studies on foreign operations and intercorporate investments are published. In the meantime, the provisions of Chapter 12 of ARB No. 43 (as amended by paragraph 18 of APB Opinion No. 6 and by paragraphs 17, 21 and 22 of APB Opinion No. 9) continue in effect. The conclusions in paragraph 14 of this Opinion apply to investments in foreign subsidiaries unless those companies are operating under conditions of exchange restrictions, controls or other uncertainties of a type that would affect decisions as to consolidation or application of the equity method; if those conditions exist, the cost method should be followed.~~

C3. APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, is amended as follows:

- a. Footnote 7 to paragraph 28:

An enterprise that engages in one or more nonmonetary transactions during a period should disclose in financial statements for the period the nature of the transactions, the basis of accounting for the assets transferred, and gains or losses recognized on transfers.⁷

⁷ ~~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.~~

C4. FASB Statement No. 5, *Accounting for Contingencies*, is amended as follows:

- a. Footnote 7 to paragraph 27:

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

C5. FASB Statement No. 13, *Accounting for Leases*, is amended as follows:

- a. Paragraph 30:

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

C6. FASB Statement No. 52, *Foreign Currency Translation*, is amended as follows:

- a. Paragraph 14:

Upon sale or upon complete or substantially complete liquidation of an investment in a foreign entity that results in a loss of control of that entity, the amount attributable to that entity and accumulated in the translation adjustment component of equity shall be removed from the separate component of equity and shall be reported as part of the gain or loss on sale or liquidation of the investment for the period during which the sale or liquidation occurs. If an entity sells part of its ownership interest in, but does not lose control of, a foreign entity, that transaction should be accounted for as capital transaction in accordance with paragraph 23 of FASB Statement No. 1XX, *Consolidated Financial Statements, including Accounting and Reporting of Noncontrolling Interests in Subsidiaries*. In accordance with that Statement, the translation adjustment component of equity should be

reallocated to the controlling and noncontrolling interests in the foreign entity after the transaction.

C7. Statement No. 58, *Capitalization of Interest Cost in Financial Statements That Include Investments Accounted for by the Equity Method*, is amended as follows:

a. Paragraph 8:

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

* 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.

C8. 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.

C9. FASB Statement No. 65, *Accounting for Certain Mortgage Banking Activities*, is amended as follows:

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

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

C10. FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*, is amended as follows:

- a. Footnote 11 to paragraph 16:

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

C11. FASB Statement No. 89, *Financial Reporting and Changing Prices*, is amended as follows:

- a. In the table in the example in paragraph 96, which provides guidance on the interpretation of paragraphs 40–43 of that Statement for the classification of certain asset and liability items as monetary or nonmonetary, the line item *Minority interests in consolidated subsidiaries (paragraph 107)* is moved from the Liabilities section to the Equity section.

C12. FASB Statement No. 95, *Statement of Cash Flows*, is amended as follows:

a. Paragraph 15:

Cash Flows from Investing Activities

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

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

Cash Flows From Financing Activities

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

C13. 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. In accordance with paragraph 26 of FASB Statement No. 1XX, *Consolidated Financial Statements*,

including Accounting and Reporting of Noncontrolling Interests in Subsidiaries, if an entity has one or more partially owned subsidiaries, for purposes of applying this Statement, income from continuing operations and net income excludes the portion attributable to the noncontrolling (minority) interest.

b. Paragraph 15:

An entity that reports a discontinued operation, an extraordinary item, or the cumulative effect of an accounting change in a period shall use income from continuing 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 In accordance with paragraph 28 of Statement 1XX, if an entity has one or more partially owned subsidiaries, the control number excludes the portion attributable to the noncontrolling interest.

c. Paragraph 37:

An entity that reports a discontinued operation, an extraordinary item, or the cumulative effect of an accounting change in a period shall present basic and diluted per-share amounts for those line items either on the face of the income statement or in the notes to the financial statements. Per-share amounts not required to be presented by this Statement that an entity chooses to disclose shall be computed in accordance with this Statement and disclosed only in the notes to the financial statements; it shall be noted whether the per-share amounts are pretax or net of tax.²¹ In accordance with paragraph 26 of Statement 1XX, if an entity has one or more partially owned subsidiaries and reports a discontinuing operation, an extraordinary item or the cumulative effect of an accounting change in a period, the numerators in the basic and diluted per-share computations excludes the amounts attributable to the noncontrolling interest.

d. Footnote 26 to paragraph 62:

Paragraphs 25–29 of FASB Statement No. 1XX, Consolidated Financial Statements, including Accounting and Reporting of Noncontrolling Interests in Subsidiaries, provides further guidance for calculating basic and diluted EPS by entities with one or more partially owned subsidiaries. Refer to paragraphs 140 and 141.

e. 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:

C14. 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 35(a) of FASB Statement No. 1XX, *Consolidated Financial Statements, including Accounting and Reporting of Noncontrolling Interests in Subsidiaries*, if an entity has an outstanding noncontrolling interest (minority interest), amounts for both comprehensive income attributable to the controlling interest and comprehensive income attributable to the noncontrolling interests are reported on the face of the financial statement in which comprehensive income is presented in addition to presenting consolidated comprehensive income.

b. Paragraph 22:

An enterprise shall display comprehensive income and its components in a financial statement that is displayed with the same prominence as other financial statements that constitute a full set of financial statements. This Statement does not require a specific format for that financial statement but requires that an enterprise display net income as a component of comprehensive income in that financial statement. Appendix B provides illustrations of the components of other comprehensive income and total comprehensive income being reported below the total for net income in a statement that reports results of operations, in a separate statement of comprehensive income that begins with net income, and in a statement of changes in equity. In accordance with paragraph 35(b)(v) of Statement 1XX, if an entity has an outstanding noncontrolling interest, the components of

other comprehensive income attributable to the controlling interest are required to be disclosed.

- c. The following footnote* is added to paragraph 129 in Appendix B:

* Appendix A of FASB Statement No. 1XX, *Consolidated Financial Statements, including Accounting and Reporting of Noncontrolling Interests in Subsidiaries*, illustrates one method for reporting comprehensive income if the entity has one or more partially owned subsidiaries.

C15. FASB Statement No. 142, *Goodwill and Other Intangible Assets*, is amended as follows:

- a. Paragraph 6 and its related footnote 5:

This Statement applies to goodwill and other intangible assets that were recognized on the acquisition of some or all of the noncontrolling interests in a subsidiary before December 15, 2005 (the effective date of FASB Statement No. 141 (revised 2005), *Business Combinations*,—whether acquired by the parent, the subsidiary itself, or another affiliate.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.

⁵ FASB Statement No. 1XX, *Consolidated Financial Statements, including Accounting and Reporting of Noncontrolling Interests in Subsidiaries*, which became effective on December 15, 2005, requires acquisitions of noncontrolling interests to be accounted for as equity transactions. Thus, no goodwill or other intangible assets would be recognized on acquisitions of noncontrolling interests after the effective date of that Statement. Statement 141 requires that the acquisition of some or all of the noncontrolling interests in a subsidiary be accounted for using the purchase method.]

C16. Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, is amended as follows:

- a. Paragraph 2:

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

C17. FASB Interpretation No. 46 (revised 2003), *Consolidation of Variable Interest Entities*), is amended as follows:

- a. The title is changed to:

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

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

- c. Paragraph 1:

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

interest requirement in Statement 1XX ~~ARB-51~~ to certain types of entities may not identify the party with a controlling financial interest because the controlling financial interest may be achieved through arrangements that do not involve voting interests.

d. Paragraph 22:

The principles of consolidated financial statements in Statement 1XX ~~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 10–15 of Statement 1XX ~~paragraphs 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.

C18. AICPA Accounting Interpretation, “Intercompany Profit Eliminations Under Equity Method,” , is amended as follows:

a. Question 1:

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

Interpretation—Paragraph 19 of APB Opinion No. 18 normally requires an investor's net income and stockholder's equity to be the same from

application of the equity method as would result from consolidation. Because the equity method is a "one-line" consolidation, however, the details reported in the investor's financial statements under the equity method will not be the same as would be reported in consolidated financial statements (see paragraph 19-c). All intercompany transactions are eliminated in consolidation, but under the equity method intercompany profits or losses are normally eliminated only on assets still remaining on the books of an investor or an investee.

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

AMENDMENTS MADE BY STATEMENT 94 CARRIED FORWARD IN THIS STATEMENT

C19. Paragraphs 8 and 9 of ARB No. 43, Chapter 12, "Foreign Operations and Foreign Exchange," which permitted an entity to exclude foreign subsidiaries from its consolidated financial statements, are deleted.

C20. APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, is amended to eliminate its requirement to use the equity method to account in consolidated financial statements for unconsolidated majority-owned subsidiaries and to eliminate its provisions applying to "parent-company financial statements prepared for issuance to stockholders as the financial statements of the primary reporting entity," which are precluded by this Statement.¹⁵ The paragraphs primarily affected are 1, 16, and 17 and the footnotes to them; changes in other paragraphs primarily remove "subsidiaries" or "unconsolidated subsidiaries" from

¹⁵ Opinion 18 was silent about parent-company financial statements prepared for purposes other than issuance as the general-purpose financial statements of the primary reporting entity. This Statement also does not consider that subject.

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

a. Paragraph 1 and its related footnote 1:

The Accounting Principles Board expresses in this Opinion its views on the equity method of accounting for investments in common stock. This Opinion extends the applicability of the equity method of accounting (paragraph 6(b)) to investments in common stock of corporate joint ventures and certain other investments in common stock. ~~This Opinion clarifies the applicability of the equity method of accounting (paragraph 6b) to investments in common stock of subsidiaries and extends the applicability of the equity method of accounting to investments in common stock of corporate joint ventures and certain other investments in common stock. The Opinion also applies to investments reported in parent company financial statements when such statements are prepared for issuance to stockholders as the financial statements of the primary reporting entity.¹ This Opinion supersedes paragraphs 2, 3 and 4 of APB Opinion No. 10 and amends paragraphs 19, 20 and 21 of Accounting Research Bulletin No. 51 to the extent that they relate to the equity method of accounting.²~~

¹ Accounting research studies on the broader subjects of accounting for intercorporate investments and foreign operations are now in process and will encompass the matters on parent company financial statements and on consolidated financial statements covered in ARB No. 51 and in ARB No. 43, Chapter 12, as amended.

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

b. Paragraph 16:

The Board concludes that the equity method best enables investors in corporate joint ventures to reflect the underlying nature of their investment in those ventures. Therefore, investors should account for investments in common stock of corporate joint ventures by the equity method in consolidated financial statements.⁶ ~~Therefore, investors should account for investments in common stock of corporate joint ventures by the equity method, both in consolidated financial statements and in parent company financial statements prepared for issuance to stockholders as the financial statements of the primary reporting entity. [Footnote reference omitted.]~~

c. Paragraph 17:

The Board concludes that the equity method of accounting for an investment in common stock should also be followed by an investor whose investment in voting stock gives it the ability to exercise significant influence over operating and financial policies of an investee even though the investor holds 50% or less of the voting stock. Ability to exercise that influence may be indicated in several ways, such as representation on the board of directors, participation in policy making processes, material intercompany transactions, interchange of managerial personnel, or technological dependency. Another important consideration is the extent of ownership by an investor in relation to the concentration of other shareholdings, but substantial or majority ownership of the voting stock of an investee by another investor does not necessarily preclude the ability to exercise significant influence by the investor. The Board recognizes that determining the ability of an investor to exercise such influence is not always clear and applying judgment is necessary to assess the status of each investment. In order to achieve a reasonable degree of uniformity in application, the Board concludes that an investment (direct or indirect) of 20% or more of the voting stock of an investee should lead to a presumption that in the absence of evidence to the contrary an investor has the ability to exercise significant influence over an investee. Conversely, an investment of less than 20% of the voting stock of an investee should lead to a presumption that an investor does not have the ability to exercise significant influence unless such ability can be demonstrated. ~~When the equity method is appropriate, it should be applied in consolidated financial statements and in parent company financial statements prepared for issuance to stockholders as the financial statements of the primary reporting entity.~~ [Footnote reference omitted.]

d. Paragraphs 19 and 19(a):

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

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

e. Paragraph 20(c):

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

f. Paragraph 20(d):

When investments in common stock of corporate joint ventures or other investments of 50% or less accounted for under the equity method are, in the aggregate, material in relation to the financial position or results of operations of an investor, it may be necessary for summarized information as to assets, liabilities, and results of operations of the investees to be presented in the notes or in separate statements, either individually or in groups, as appropriate.

Appendix D

IMPACT ON RELATED EITF ISSUES AND SEC AND AICPA GUIDANCE

D1. This appendix addresses the impact of this Statement on authoritative accounting guidance included in categories (a), (b), and (c) in the GAAP hierarchy discussed in the American Institute of Certified Public Accountants' (AICPA) Statement on Auditing Standards No. 69, *The Meaning of "Present Fairly in Conformity With Generally Accepted Accounting Principles" in the Independent Auditor's Report*. It does not address literature included in category (d) of that hierarchy.

EITF Consensuses

D2. The following table lists each issue discussed by the Emerging Issues Task Force (EITF) relating to noncontrolling interests and indicates (a) the status of the EITF consensus after issuance of this Statement (also referred to as Statement 1XX), (b) the impact of this Statement on that consensus (if any), (c) or the reasons that the specific issues are beyond the scope of this Statement. The status sections of the *EITF Abstracts* were updated accordingly upon issuance of this Statement.

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

EITF Issue No.	Title	Status	Commentary	Status Section Update
84-23	Leveraged Buyout	N/A (Status Update)	The status section refers to Statement 94 but states that	Statement 1XX was issued in XX, 2005. It

EITF Issue No.	Title	Status	Commentary	Status Section Update
	Holding Company Debt		that Statement does not address the issue.	does not affect the guidance in this Issue; however, Statement 1XX supersedes Statement 94.
84-42	Push-Down of Parent Company Debt to a Subsidiary	N/A (Status Update)	The status section refers to Statement 94 but states that that Statement does not address the issue.	Statement 1XX was issued in XX, 2005. It does not affect the guidance in this Issue; however, Statement 1XX supersedes Statement 94.
85-21	Changes of Ownership Resulting in a New Basis of Accounting	N/A (Status Update)	The status section refers to Statement 94 but states that that Statement does not address this Issue.	Statement 1XX was issued in XX, 2005. It does not affect the guidance in this Issue; however, Statement 1XX supersedes Statement 94.
88-15	Classification of Subsidiary's Loan Payable in Consolidated Balance Sheet When Subsidiary's and Parent's Fiscal Years Differ	N/A (Status Update)	This Issue refers to paragraph 4 of ARB 51.	Statement 1XX was issued in XX, 2005. It does not affect the guidance in this Issue; however, Statement 1XX replaces ARB 51 but carries forward the guidance in paragraph 4 of ARB 51 without reconsideration.
88-16	Basis in Leveraged Buyout Transactions	Partially Nullified—unnecessary	Footnote 5 of this Issue refers to paragraph 10 of ARB 51, which established accounting principles applicable to step acquisitions.	Statement 1XX was issued in XX, 2005. It changed the guidance in paragraph 10 of ARB 51. The guidance for step acquisitions is now provided by Statement 141(R). Thus, the reference to that paragraph in footnote 5 is nullified.
90-5	Exchanges of	Issue 1—N/A	Issue 1 addresses transfers of	Statement 1XX was

EITF Issue No.	Title	Status	Commentary	Status Section Update
	Ownership Interests between Entities under Common Control	(Status Update)	net assets between entities under common control.	issued in XX, 2005. Transactions between entities under common control are outside the scope of that Statement.
		Issue 2— Nullified— unnecessary	Issue 2 addresses the acquisition by one subsidiary of another subsidiary's minority interest if both subsidiaries are under common control. The Task Force reached a consensus that that acquisition should be accounted for by the purchase method as an acquisition of minority interests.	Statement 1XX was issued in XX, 2005. It nullifies this consensus in Issue 2 because it requires acquisitions of noncontrolling interests after control is obtained to be accounted for as capital transactions rather than by the purchase method.
90-13	Accounting for Simultaneous Common Control Mergers	Issue 2(a)— Nullified— unnecessary	Issue 2(a) provides guidance for a transaction in which a parent obtains control of an entity and at the same time, that entity issues shares to the parent in exchange for the parent's interest in its subsidiary. The Task Force reached a consensus that the transaction should be accounted for as a partial sale of the subsidiary to the minority shareholders of the parent. Therefore, a gain or loss would be recognized by the parent on the portion of the subsidiary sold.	Statement 1XX was issued in XX, 2005. It nullifies the consensus in Issue 2(a) because it requires that sales of noncontrolling interests in subsidiaries without a loss of control of the subsidiary be accounted for as capital transactions.
90-15	Impact of Nonsubstantive Lessors, Residual Value Guarantees, and Other Provisions in Leasing Transactions	N/A (Status Update)	The status section of this Issue was updated by Interpretation 46(R) to state that "...if a lessor entity is not a variable interest entity, it is subject to the requirements of ARB 51 as amended by FASB Statement No. 94, <i>Consolidation of All Majority-Owned</i>	Statement 1XX was issued in XX, 2005. It does not affect the guidance in this Issue. However, Statement 1XX replaces ARB 51 and supersedes Statement 94, but carries forward the majority of the

EITF Issue No.	Title	Status	Commentary	Status Section Update
			<i>Subsidiaries.”</i>	requirements of ARB 51, as amended, without reconsideration.
94-2	Treatment of Minority Interests in Certain Real Estate Investment Trusts	Nullified—unnecessary	In this Issue, the Task Force’s observation is that if the net equity of the operating partnership is less than zero, then the initial minority interest is zero unless there is an obligation of the minority interest to make good those losses.	Statement 1XX was issued in XX, 2005. It nullifies that observation and eliminates the requirement in ARB 51 that losses in excess of the minority interest’s equity capital be attributed to the controlling interest. Thus, the minority interest, which is a component of equity, could be reported as an equity deficit.
95-7	Implementation Issues Related to the Treatment of Minority Interests in Certain Real Estate Investment Trusts	Issue 1—Nullified—unnecessary	Issue 1 addresses how an operating partnership’s income and losses and distributions should be allocated between the controlling and noncontrolling interests in the real estate investment trust’s (REIT) consolidated financial statements if the minority interest balance at formation is less than zero based on the minority interest’s proportionate share of the operating partnership’s net deficit. The Task Force reached a consensus that the minority interest should not be allocated losses if the minority interest’s balance is less than zero at formation.	Statement 1XX was issued in XX, 2005. It nullifies the consensus reached in Issue 1. Statement 1XX eliminated the requirement in ARB 51 that losses in excess of the minority interest’s equity capital be attributed to the controlling interest. Thus, the minority interest, which is a component of equity, could be reported as an equity deficit.
96-16	Investor’s Accounting for an Investee	N/A (Status Update)	This Issue addresses what minority rights held by the minority shareholder	Statement 1XX was issued in XX, 2005. It does not affect the

EITF Issue No.	Title	Status	Commentary	Status Section Update
	When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights		overcome the presumption of Statement 94 that all majority-owned investees should be consolidated.	guidance in this Issue. However, Statement 1XX supersedes Statement 94 but carries forward its guidance without reconsideration.
		Partially Nullified—unnecessary	Under the discussion of Transition Method A, this Issue states that “Generally, changes in accounting for a majority ownership interest from consolidation to the equity method of accounting or changes from the equity method to consolidation would not result in an adjustment to previously reported equity or net income. However, a change from consolidation to the equity method could result in a cumulative effect adjustment if losses recognized in consolidation would not have been recognized under the equity method or vice versa (see paragraph 15 of ARB 51, and paragraph 19(i) of Opinion 18).”	Statement 1XX was issued in XX, 2005. It eliminated paragraph 15 of ARB 51.
97-2	Application of FASB Statement No. 94 and APB Opinion No. 16 to Physician Practice Management Entities and Certain Other Entities with Contractual Management Arrangements	N/A (Status Update)	This Issue addresses the application of Statement 94 to physician practice management entities.	Statement 1XX was issued in XX, 2005. It does not affect the guidance in this Issue; however, it supersedes Statement 94 but carries forward its guidance without reconsideration.

EITF Issue No.	Title	Status	Commentary	Status Section Update
98-2	Accounting by a Subsidiary or Joint Venture for an Investment in the Stock of Its Parent Company or Joint Venture Partner	N/A (Status Update)	This Issue states that “paragraph 13 of ARB 51 states that shares of a parent company held by a subsidiary should not be treated as outstanding stock in the consolidated balance sheet of the parent.”	Statement 1XX was issued in XX, 2005. It does not affect the guidance in this Issue; however, it replaces ARB 51 but carries forward the guidance in paragraph 13 of ARB 51 without reconsideration.
00-6	Accounting for Freestanding Derivative Financial Instruments Indexed to, and Potentially Settled in, the Stock of a Consolidated Subsidiary	Nullified—unnecessary	The Task Force reached a consensus that for this Issue stock of a subsidiary is not considered equity of the parent (reporting entity).	Statement 1XX was issued in XX, 2005. It nullifies this consensus because it requires that noncontrolling interests in subsidiaries be classified as equity of the consolidated entity.
		Nullified—unnecessary	The Task Force also reached a consensus that the cost of acquiring shares of a consolidated subsidiary should be accounted for as a step acquisition in accordance with Opinion 16 (as amended by Statement 141).	Statement 1XX was issued in XX, 2005. It nullifies this consensus because it requires that acquisitions of minority (noncontrolling) shares of a consolidated subsidiary be accounted for as capital transactions, not as step acquisitions.
02-14	Whether the Equity Method of Accounting Applies When an Investor Does Not Have an Investment in Voting Stock of an Investee but Exercises Significant Influence through Other Means	N/A (Status Update)	Paragraph 12 refers to the guidance in ARB 51 for determining whether the investor's economic interest is subject to consolidation.	Statement 1XX was issued in XX, 2005. It does not affect the guidance in this Issue; however, it replaces ARB 51 but carries forward that guidance in ARB 51 without reconsideration.

EITF Issue No.	Title	Status	Commentary	Status Section Update
D-14	Transactions involving Special-Purpose Entities	N/A (Status Update)	This Topic was nullified by Interpretation 46(R) for entities within the scope of Interpretation 46(R). This Topic also was updated by Interpretation 46(R) to state that “if an SPE is not a variable interest entity, it is subject to the requirements of ARB 51 as amended by Statement 94.”	Statement 1XX was issued in XX, 2005. It does not affect this Topic. Statement 1XX replaces ARB 51 and supersedes Statement 94, but carries forward the majority of the requirements in ARB 51, as amended, without reconsideration.

AICPA Guidance

D3. The following table lists guidance issued by the AICPA or its staff that the FASB staff believes may be affected by the tentative decisions made by the Board in this Statement. It is presented for informational purposes only. Decisions whether to amend AICPA or AICPA staff guidance are made by the AICPA and its staff.

AICPA Guidance	Title	Analysis
SOP 94-3	Reporting of Related Entities by Not-for-Profit Organizations	Paragraph 5 states that not-for-profit organizations with a controlling financial interest in a for-profit entity through direct or indirect ownership of a majority voting interest in that entity should follow the guidance in ARB 51, as amended by Statements 94 and 144, in determining whether the financial position, results of operations, and cash flows of the for-profit entity should be included in the not-for-profit organization's financial statements. Statement 1XX replaces ARB 51 and supersedes Statement 94.
SOP 95-1	Accounting for Certain Insurance Activities of Mutual Life Insurance Enterprises	Paragraph 41 states that for contracts limiting the amount of net income that may be distributed to stockholders, the net income amount that cannot be distributed to shareholders is excluded from stockholders' equity by a charge to operations and a credit to a liability, <i>a method similar to the accounting for net income applicable to minority interests</i> (emphasis added). Statement 1XX requires that minority interest no longer be deducted to determine consolidated net income.

SOP 00-3	Accounting by Insurance Enterprises for Demutualizations and Formations of Mutual Insurance Holding Companies and for Certain Long-Duration Participating Contracts	<p>Paragraph 39 states that segregating undistributed accumulated earnings on participating contracts in a manner <i>similar to minority interest</i> may be meaningful in a stock life company because the objective of that presentation is to identify amounts that are not distributable to stockholders (emphasis added). Statement 1XX requires minority interests be classified as a separate component of equity because they are considered part of the equity of the consolidated group.</p> <p>Additionally, paragraphs 44 and 49 of this SOP refer to paragraph 42 of FASB Statement No. 60, <i>Accounting and Reporting by Insurance Enterprises</i>, which is amended by this Statement.</p>
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SEC Guidance

D4. The following table lists guidance issued by the Securities and Exchange Commission (SEC) or its staff that the FASB staff believes may be affected by the tentative decisions made by the Board in this Statement. It is presented for informational purposes only and does not include SEC or SEC staff guidance addressing information presented outside of the financial statements. Decisions whether to amend SEC or SEC staff guidance are made by the SEC and its staff.

SEC or SEC Staff Guidance	Title / Subject	Analysis
SAB Topic 5.H	Accounting for Sales of Stock by a Subsidiary— Question 1	<p>This SAB Topic states that when an offering takes the form of a subsidiary's direct sale of its unissued shares, the amount in excess of the parent's carrying value can be reflected as a gain in the consolidated income statement in situations in which no other such capital transactions are contemplated.</p> <p>Statement 1XX requires that changes in a parent's controlling ownership interests in a subsidiary after control is obtained that do not result in a loss of control shall be accounted for as capital transactions. Therefore, no gain or loss shall be recognized in consolidated net income on such transactions. The carrying amount of the noncontrolling interest shall be adjusted to reflect the proportionate change in its ownership of the subsidiary's net assets. Any difference between the amount by which the noncontrolling interest is adjusted and</p>

		the consideration paid or received, if any, shall be recognized directly in additional paid-in capital.
SAB Topic 6.B	General Revision of Regulation S-X: Income or Loss Applicable to Common Stock	Pursuant to this SAB Topic, net income or loss is presented net of minority interest income or expense. Statement 1XX requires separate presentation of consolidated net income or loss and net income or loss attributable to the controlling and noncontrolling interests.
Rule 1-02(w)(3)	Significant subsidiary	A portion of this guidance requires that significance be calculated on income from continuing operations which is net of minority interest. Statement 1XX refers to income from continuing operations as income attributable to the controlling and the noncontrolling interest. This could impact whether summarized financial information of equity method investees or unconsolidated subsidiaries is required in the notes to the financial statements. (Refer to Rule 4-08(g) of Regulation S-X.)
Rule 5-02.27 Rule 7-03.20 Rule 9-03.18	Balance Sheet Presentation	The guidance is not specific as to whether minority interests should be classified as liabilities, equity, or mezzanine. Statement 1XX requires that minority interests be classified as a separate component of equity.
Rule 5-02.31 Rule 7-03.24 Rule 9-03.22	Other Stockholders' Equity	The guidance is not specific as to whether minority interests should be classified as liabilities, equity, or mezzanine. Statement 1XX requires that minority interests be classified as a separate component of equity.
Rule 5-03.12 Rule 7-04.10 Rule 9-04.14(e)	Minority Interest Expense	The guidance requires that minority interest be deducted in the computation of net income or loss. Statement 1XX precludes deducting income attributable to minority interests to arrive at consolidated net income, but requires separate disclosure on the face of the income statement of the amount of net income attributable to the minority interest.

<p>Rule 5-03.19</p> <p>Rule 6-08.9</p> <p>Rule 7-04.17</p> <p>Rule 9-04.20</p>	<p>Net income or loss</p>	<p>This guidance requires presentation of net income or loss which is net of minority interest income or expense. Statement 1XX requires that consolidated net income or loss and net income or loss attributable to the controlling interest and noncontrolling interests each be disclosed separately on the face of the income statement.</p>
<p>Rule 7-03.1(h)(6)</p>	<p>Notes</p>	<p>This guidance requires certain disclosures when investments exceed 10% of total stockholders' equity. Since Statement 1XX requires that minority interests be classified as a separate component of equity, the test, unless changed, would include any minority interest balance in the computation.</p>

Appendix E

GLOSSARY

E1. This appendix contains definitions of certain terms used in this Statement.

Affiliate

An entity that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with another entity. A parent and its subsidiary or subsidiaries are affiliates and subsidiaries of a common parent are affiliates.

Combined financial statements

The financial statements of a combined group of commonly controlled entities (affiliates) or commonly managed entities presented as those of a combined economic entity. In contrast to consolidated financial statements, combined financial statements do not include a parent within the group.

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.

Controlling interest

The portion of the equity (residual interest) of the consolidated group attributable to the parent and the parent's owners.

Noncontrolling interest

The portion of the equity (residual interest) in a subsidiary attributable to the owners of the subsidiary other than the parent and the parent's affiliates.

Parent

An entity that has a controlling financial interest in one or more subsidiaries. (The parent of a variable interest entity is known as the primary beneficiary.)

Subsidiary

An entity, including an unincorporated entity such as a partnership or trust, in which another enterprise known as its parent holds a controlling financial interest.