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EITF Snapshot.

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This *EITF Snapshot* summarizes the January 15, 2009, meeting of the Emerging Issues Task Force. Official EITF minutes will be posted shortly to Technical Library: The Deloitte Accounting Research Tool and the FASB's Web site. EITF Issue summaries also can be found on those sites.

Issue 08-10 Selected Statement 160 Implementation Questions

STATUS: Tentative conclusions reached.

AFFECTS: An entity that transfers an ownership interest in a consolidated subsidiary to another entity, resulting in deconsolidation of the subsidiary. This Issue discusses situations in which the application of Statement 160[1] conflicts with existing authoritative accounting guidance on (1) the transfer of an interest in a consolidated subsidiary that is "in-substance" real estate; (2) the transfer of an interest in a consolidated subsidiary to an equity method investee; and (3) the transfer of an interest in a consolidated subsidiary in exchange for a joint venture interest.

BACKGROUND: Before the issuance of Statement 160, entities applied various accounting guidance to the deconsolidation of a subsidiary that results from a sale or transfer of a controlling ownership interest. Statement 160 establishes an accounting model for the deconsolidation of a subsidiary and the accounting for income recognition upon deconsolidation; however, it does not amend certain accounting guidance that entities previously followed regarding income recognition upon deconsolidation of a subsidiary. This has led many constituents to question which authoritative accounting guidance applies after the effective date of Statement 160.

Statement 160 requires an entity to recognize a full gain or loss, if any, in earnings when a subsidiary is deconsolidated because a controlling financial interest has been transferred. Specifically, Statement 160 requires that any retained investment in the deconsolidated subsidiary be measured at its fair value and included in the calculation of the gain or loss. In contrast, Statement 66[2] and SOP 78-9[3] specifically apply to sales or transfers of ownership interests in subsidiaries that are in-substance real estate and preclude full gain recognition when an interest is retained. Some constituents have also questioned whether an entity should apply Statement 160's guidance on deconsolidation and full gain recognition to transfers of a controlling ownership interest in a subsidiary to an equity method investee (or in return for a joint venture interest). Specifically, some constituents have asserted that Statement 160's guidance conflicts with Opinion 18,[5] which requires an investor that is applying the equity method of accounting to eliminate intercompany gains or losses as if the investee were consolidated. Similarly, Issue 01-2[4] includes an SEC observer comment that precludes gain or loss on deconsolidation of a subsidiary when that subsidiary is exchanged for a joint venture interest and cash consideration is not received.

At issue are the following:

- Whether an entity should apply Statement 160, or should continue to apply accounting guidance specific to the sales of real estate (e.g., Statement 66 or SOP 78-9), to transfers of a controlling ownership interest in a subsidiary that is in-substance real estate.
- Whether an entity should recognize or eliminate gains or losses, if any, on the transfer of an ownership interest in a subsidiary to an equity method investee.
- Whether an entity should apply Statement 160 or other authoritative guidance to the transfer of an ownership interest in a subsidiary in exchange for a joint venture interest.

1 FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements* — an amendment of ARB No. 51.
2 FASB Statement No. 66, *Accounting for Sales of Real Estate*.
3 AICPA Statement of Position 78-9, *Accounting for Investments in Real Estate Ventures*.
4 EITF Issue No. 01-2, "Interpretations of APB Opinion No. 29."
5 APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*.

SUMMARY: The Task Force previously reached a consensus-for-exposure that an entity should (1) continue to apply accounting guidance specific to the sales of real estate (e.g., Statement 66 or SOP 78-9) to transfers of ownership interests in a subsidiary that is in-substance real estate and that results in deconsolidation of a previously consolidated subsidiary; (2) recognize gains or losses, if any, by applying Statement 160 to the transfer of an ownership interest in a subsidiary to an equity method investee that results in deconsolidation of a previously consolidated subsidiary; and (3) apply Statement 160 to the transfer of an ownership interest in a subsidiary in exchange for a joint venture interest that results in deconsolidation of a previously consolidated subsidiary. The Task Force also previously reached a consensus-for-exposure that deconsolidation and gain or loss recognition is only appropriate when the subsidiary being deconsolidated is a "substantive entity."

At its January 2009 meeting, the Task Force discussed comments received on its consensus-for-exposure and the FASB staff's suggested responses to those comments. The discussion focused on concerns regarding the proposed requirement that an entity be substantive to apply Statement 160's deconsolidation and gain or loss requirements. In addition, the Task Force discussed whether a transfer of a group of assets (i.e., not a legal entity) that meet the definition of a business in Statement 141(R)[6] should similarly be subject to Statement 160's guidance on deconsolidation and gain or loss recognition. Ultimately, the Task Force was unable to reach a consensus on these issues and decided that the FASB staff should continue to research the scope of this Issue and the ramifications of the tentative conclusions reached by the Task Force. The Task Force also requested the FASB staff to investigate whether any additional disclosures should be required for transactions within the scope of this Issue.

NEXT STEPS: Further deliberations by the Task Force are expected at a future meeting.

Administrative Matters

SEC Observer Comments on Statement 160 — During Task Force deliberations of Issue 08-10, the SEC observer, James Kroeker (acting chief accountant of the SEC), mentioned that the SEC staff is updating its guidance that is affected by Statement 160 (e.g., Staff Accounting Bulletin Topic 5.E, "Accounting for Divestiture of a Subsidiary or Other Business Operation"). He stated that if a conflict between existing SEC guidance and recently issued accounting guidance exists, an entity should apply the more recent accounting guidance (i.e., Statement 160). He did not provide a time frame for any SEC updates.

New Projects Added to the Task Force's Agenda — The FASB chairman added two projects to the Task Force's agenda. One project was the result of an agenda request by the American Council of Life Insurers and is a consideration of how an insurer should account for majority-owned investments when the ownership is maintained through a separate account. The other project concerns in-process research and development costs that are acquired in an asset acquisition (not acquired in a business combination) and was previously on the FASB's agenda.

Update on EITF Issue No. 09-A, "Application of Issue 08-1 to Software Arrangements" — The FASB staff stated that a working group has been formed to discuss this Issue. The working group will meet on February 10, 2009, to discuss the direction of the Issue.

6 FASB Statement No. 141(R), *Business Combinations*.

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