

Defining Issues[®]

KPMG LLP



EITF Deliberates the Scope of Statement 160

The FASB's Emerging Issues Task Force continued to deliberate EITF 08-10's questions about the applicability of Statement 160, on noncontrolling interests in consolidated financial statements, to three types of transactions and discussed broader implementation questions about the Statement's scope.¹ The three transactions are sales of an interest in a subsidiary that is in substance real estate, transfers of an interest in a subsidiary to an equity-method investee, and transfers of an interest in a subsidiary in exchange for a joint-venture interest. The Task Force continues to support the conclusions on these transactions that were exposed for public comment following the November 2008 EITF meeting, but decided to delay a final Consensus on the EITF 08-10 transactions until it considers broader implementation issues related to the scope of Statement 160. The Task Force will therefore reconsider EITF 08-10 in light of broader issues on Statement 160's applicability at its March meeting.

In Substance Real Estate

The need to clarify Statement 160's applicability to sales of an interest in a subsidiary that is in substance real estate originates in the fact that the Statement contains no scope exceptions for transactions with subsidiaries that are within the scope of the requirements on accounting for real estate (Statement 66 and SOP 78-9), and the accounting outcomes of applying the real-estate accounting requirements can differ considerably from applying Statement 160.²

To illustrate the different accounting consequences, assume a parent entity owns a 100% interest in a subsidiary that in substance is an investment in real estate and sells a 30% interest to a third party. Gain or loss on the portion sold may qualify for recognition under Statement 66. Under Statement 160, no gain or loss would be recognized in income, because the sale of the 30% interest would not lead to the subsidiary's deconsolidation. However, if the parent sold a 60% interest in the subsidiary to a third party and thereby gave up its control, partial gain or loss may still be recognized under Statement 66, but Statement 160 would require that the subsidiary be deconsolidated with a gain or loss recognized in income for both the portion sold and the fair value of the portion retained.

In Substance Real Estate	1
Interest in a Subsidiary Transferred to an Equity-Method Investee	2
Transfer in Exchange for a Joint-Venture Interest	2
Issue 08-10's Status	2
Other Issues	2

©2001-2009 KPMG LLP, a U.S. limited liability partnership and a member firm of the network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved. KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative. 43041NYO

Photo: GettyImages/Photodisc/PhotoLink NA003429

¹ EITF Issue No. 08-10, Selected Statement 160 Implementation Questions, and FASB Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements, both available at www.fasb.org.

² FASB Statement No. 66, Accounting for Sales of Real Estate, available at www.fasb.org, and AICPA Statement of Position 78-9, Accounting for Investments in Real Estate Ventures.

Interest in a Subsidiary Transferred to an Equity-Method Investee

This question pertains to whether Statement 160 should apply to transactions in which an entity transfers an interest in a subsidiary to an equity-method investee. For an example of this type of transaction, assume a parent company has a 100% interest in a subsidiary and transfers the entire subsidiary to an existing equity-method investee, of which the parent owns a 30% interest. Under Opinion 18, the gain or loss on the portion of the interest in the subsidiary retained through ownership of the equity-method investee would be eliminated.³ Under Statement 160, the entire gain or loss would be recognized because the transfer led to the parent company loss of control, which in turn led it to deconsolidate the subsidiary.

Transfer in Exchange for a Joint-Venture Interest

The third implementation question is whether Statement 160's requirements should govern accounting for transfers of a controlling interest in a subsidiary in exchange for a joint-venture interest. Under existing practice, the investment in the joint venture generally would be accounted for at the historical carrying value of the transferred interest in the subsidiary. Under Statement 160, the transfer of the interest in the subsidiary would result in deconsolidation with any resulting gain or loss recognized in earnings. The residual noncontrolling interest in the subsidiary would be remeasured at fair value. If the Task Force includes these transactions within the scope of Statement 160, the GAAP requirements would differ

from existing joint-venture practice on gain or loss recognition and residual-interest remeasurement.

Issue 08-10's Status

At the November 2008 EITF meeting, the Task Force agreed to propose clarifications to Statement 160 that would have required in-substance-real-estate transactions to be governed by Statement 66 and other applicable literature, but included the other two transactions within Statement 160's scope. At the January 2009 meeting, the Task Force discussed comments received on the proposed Consensus, which included issues related to the overall applicability of Statement 160 in specific situations, such as:

- Should Statement 160 apply only if the subsidiary meets the definition of a business in Statement 141R?⁴
- Should Statement 160 exclude transactions involving subsidiaries that are not substantive entities? And, if so, should the Task Force provide guidance on determining whether a subsidiary is substantive?
- Should Statement 160 apply to transactions involving groups of assets that meet the definition of a business but are not in separate legal entities?
- Are there other transactions, or terms within transactions, that should be accounted for under other literature and excluded from Statement 160's scope?

The Task Force decided to delay approving the Consensus on EITF 08-10 in order to

consider these broader Statement 160 issues further. They will be pursued at the March 2009 EITF meeting.

Other Issues

Other issues on the EITF's agenda that are expected to be addressed at the March EITF meeting include:

- Revenue arrangements with multiple deliverables (EITF 08-1).
- Accounting for multiple element arrangements within the scope of SOP 97-2 on software revenue recognition.⁵
- Accounting for arrangements whereby issuers of convertible debt lend their own shares (EITF 08-1).
- The milestone method of revenue recognition (EITF 08-9).

The FASB staff reported that the FASB chairman added the following new issues to the EITF's agenda:

- Insurers' accounting for controlling interests in mutual funds held in a separate account of the insurer.
- Accounting for in-process research and development acquired in asset acquisitions that are not business combinations.

The FASB staff also reported that an agenda addition is being considered on how to assess the need for a valuation allowance on deferred tax assets related to available-for-sale debt securities. The FASB chairman will decide whether to add the agenda item after the staff performs additional research.

³ APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, available at www.fasb.org.

⁴ FASB Statement No. 141 (revised 2007), *Business Combinations*, available at www.fasb.org.

⁵ AICPA Statement of Position 97-2, *Software Revenue Recognition*.



The descriptive and summary statements in this newsletter are not intended to be a substitute for the texts of the EITF's Consensuses, FASB pronouncements, SEC staff announcements, official minutes, or any other potential or actual requirements. In determining the appropriate accounting treatment for a transaction, companies should refer to the texts of the applicable documents that set out requirements, including the formal EITF meeting minutes and Abstracts that are made available on the FASB Web site, consider their specific circumstances, and consult their accounting and legal advisors.

**This is a publication of KPMG's
Department of Professional
Practice—Audit
212-909-5600**

Contributing authors:

Mark M. Bielstein
Jeanette A. Press

Earlier editions are available at:
www.us.kpmg.com/definingissues

Defining Issues® is a registered trademark of KPMG LLP.
© 2001-2009 KPMG LLP, a U.S. limited liability partnership and a member firm of the network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved. KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative. 43041NYO