FINANCIAL ACCOUNTING SERIES

ACCOUNTING STANDARDS UPDATE

No. 2010-08
February 2010

Technical Corrections to Various Topics

An Amendment of the *FASB Accounting Standards Codification*™

Financial Accounting Standards Board
of the Financial Accounting Foundation

The *FASB Accounting Standards Codification*™ is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective.

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Summary

Why Is the FASB Issuing This Accounting Standards Update (Update)?

From time to time, the Board reviews its standards to determine if any provisions in U.S. generally accepted accounting principles (GAAP) are outdated, contain inconsistencies, or need clarifications to reflect the Board's original intent. The amendments in this Update eliminate those inconsistencies and outdated provisions and provide the needed clarifications. The related changes to U.S. GAAP are generally nonsubstantive in nature. The Board concluded that the guidance in the amendments will not result in pervasive changes to current practice. However, it is possible that the application of the guidance may result in a change to existing practice.

In addition to making amendments to U.S. GAAP, the Board decided to make changes to the legacy literature. While the legacy literature is no longer authoritative, the changes are being made to facilitate historical research and for inclusion in the final versions of the FASB's *Original Pronouncements*. This Update includes a separate appendix that indicates the changes made to the legacy literature.

Who Is Affected by the Amendments in This Update?

The amendments apply to all entities within the scope of the affected accounting guidance.

What Are the Main Provisions?

While none of the provisions in the amendments in this Update fundamentally change U.S. GAAP, certain clarifications made to the guidance on embedded derivatives and hedging (Subtopic 815-15 of the *FASB Accounting Standards Codification*™) may cause a change in the application of that Subtopic and, thus, special transition provisions are provided for accounting changes related to that Subtopic.

How Do the Main Provisions Differ from Current U.S. GAAP and Why Are They an Improvement?

By eliminating the inconsistencies and outdated provisions and providing the needed clarifications, the amendments in this Update will make the Accounting Standards Codification easier to understand and apply.

When Will the Amendments Be Effective?

The amendments in this Update are effective for the first reporting period (including interim periods) beginning after issuance, except for certain amendments made to Topic 815 and the nullification of paragraph 852-740-45-2. The amendments related to the nullification of paragraph 852-740-45-2 should be applied to reorganizations for which the date of the reorganization is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. For those reorganizations reflected in interim financial statements issued before the amendments in this Update are effective, retrospective application is required. An entity may not apply those provisions before that date.

With respect to paragraphs 815-15-25-26, 815-15-25-42, and 815-15-55-13, the amendments in this Update are effective for fiscal years beginning after December 15, 2009, and should be applied to existing contracts (hybrid instruments) containing embedded derivative features at the date of adoption to determine whether, under the revised guidance in those paragraphs, the embedded derivative is required to be separated from the host contract and accounted for separately. However, if a contract (that is, a hybrid instrument) is required to be separated into a host contract and a derivative instrument under the guidance in paragraphs 815-15-15-8 through 15-9, and if that contract is a hybrid financial instrument, the entity may elect the fair value option (see the guidance on financial instruments [Subtopic 825-10]) at adoption of the amendments to Topic 815 in this Update; that is, the entity may irrevocably elect to measure that contract in its entirety at fair value (with changes in fair value recognized in earnings). The amendments require the election of the fair value option to be determined on an instrument-by-instrument basis at adoption of the amendments to Topic 815 in this Update and supported by documentation completed by the end of the fiscal quarter of initial adoption. If the fair value option is not elected for a hybrid contract that is required to be separated into a host contract and a derivative instrument under paragraphs 815-15-15-8 through 15-9, the carrying amount of the host contract at adoption of the amendments should be based on a pro forma bifurcation as of the inception of the hybrid contract and the host contract's subsequent accounting to the date of adoption. At adoption, any difference between the total carrying amount of the individual components of the newly bifurcated hybrid instrument and the carrying amount of the hybrid instrument before bifurcation should be recognized as a cumulative-effect adjustment to beginning retained earnings for the period of adoption. For any contract containing embedded derivative features that have previously been bifurcated but are no longer subject to the application of paragraph 815-15-25-26 and, consequently, should not be bifurcated from the host contract, the carrying amount of the combined hybrid instrument at adoption should be the total carrying amount of the individual components of the preexisting bifurcated hybrid instrument. No cumulative-effect adjustment to beginning retained earnings for the period of adoption is warranted.

How Do the Provisions Compare with International Financial Reporting Standards (IFRS)?

The scope of the project was to make certain amendments and clarifications to U.S. GAAP. The amendments in this Update generally do not have an effect on convergence of U.S. GAAP and IFRS.

Amendments to the *FASB Accounting Standards Codification*™

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–55. In some cases, not only are the amended paragraphs shown but also the preceding and following paragraphs are shown to put the change in context. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Amendments to Master Glossary

2. Amend the Master Glossary terms *Corporate Joint Venture* and *Credit Risk*, with no link to a transition paragraph, as follows:

Corporate Joint Venture

A corporation owned and operated by a small group of entities (the joint venturers) as a separate and specific business or project for the mutual benefit of the members of the group. A government may also be a member of the group. The purpose of a corporate joint venture frequently is to share risks and rewards in developing a new market, product or technology; to combine complementary technological knowledge; or to pool resources in developing production or other facilities. A corporate joint venture also usually provides an arrangement under which each joint venturer may participate, directly or indirectly, in the overall management of the joint venture. Joint venturers thus have an interest or relationship other than as passive investors. An entity that is a subsidiary of one of the joint venturers is not a corporate joint venture. The ownership of a corporate joint venture seldom changes, and its stock is usually not traded publicly. A ~~minority~~noncontrolling interest held by public ownership, however, does not preclude a corporation from being a corporate joint venture.

Credit Risk

For purposes of a hedged item in a fair value hedge, credit risk is the risk of changes in the hedged item's fair value attributable to both of the following:

a. Changes in the obligor's creditworthiness
b. Changes in the spread over the benchmark interest rate with respect to the hedged item's credit sector at inception of the hedge.

For purposes of a hedged transaction in a cash flow hedge, credit risk is the risk of changes in the hedged transaction's cash flows attributable to all of the following:

a. Default
b. Changes in the obligor's creditworthiness
c. Changes in the spread over the benchmark interest rate with respect to the related financial asset's or liability's~~hedged item's~~ credit sector at inception of the hedge.

Amendments to Subtopic 230-10

3. Amend paragraph 230-10-45-28, with no link to a transition paragraph, as follows:

Statement of Cash Flows—Overall

Other Presentation Matters

230-10-45-28 Entities that choose not to provide information about major classes of operating cash receipts and payments by the direct method as encouraged in paragraph 230-10-45-25 shall determine and report the same amount for net cash flow from operating activities indirectly by adjusting net income of a business entity or change in net assets of a not-for-profit entity (NFP) to reconcile it to net cash flow from operating activities (the indirect or reconciliation method). That requires adjusting net income of a business entity or change in net assets of an NFP to remove both of the following:

a. The effects of all deferrals of past operating cash receipts and payments, such as changes during the period in inventory, deferred income, and the like, and all accruals of expected future operating cash receipts and payments, such as changes during the period in receivables and payables. Adjustments to net income of a business entity or change in net assets of an NFP to determine net cash flow from operating activities shall reflect accruals for interest earned but not received and interest incurred but not paid. Those accruals may be reflected in the statement of financial position in changes in assets and liabilities that relate to investing or financing activities, such as loans or deposits. However, interest credited directly to a deposit account that has the general characteristics of **cash** is a cash outflow of the payor and a cash inflow of the payee when the entry is made.
b. ~~The effects of~~All items that are included in net income that do not affect net cash provided from, or used for, operating activities such as depreciation of property, plant, and equipment and amortization of finite-life intangible assets. This includes all items whose cash effects are related to investing or financing cash flows, such as ~~depreciation, amortization of goodwill, and~~ gains or losses on sales of property, plant,

and equipment and discontinued operations (which relate to investing activities), and gains or losses on extinguishment of debt (which relate to ~~is a~~ financing ~~activity).~~activities).

4. Amend paragraph 230-10-00-1 as follows:

230-10-00-1 ~~No updates have been made to this subtopic.~~The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
230-10-45-28	Amended	2010-08	02/02/2010

Amendments to Subtopic 255-10

5. Amend paragraph 255-10-55-12, with no link to a transition paragraph, as follows:

Changing Prices—Overall

Implementation Guidance and Illustrations

255-10-55-12 The interests of ~~minority~~noncontrolling shareholders in the earnings and equity of subsidiaries are, from the consolidated entity's point of view, claims that are not fixed. Rather, they are residuals that will vary based on the subsidiary's earnings, dividends, and other transactions affecting its equity and so are nonmonetary. (See the following paragraph as to classification of capital stock of the entity or of its consolidated subsidiaries subject to mandatory redemption at fixed amounts.)

6. Amend paragraph 255-10-00-1 as follows:

255-10-00-1 ~~No updates have been made to this subtopic.~~The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
255-10-55-12	Amended	2010-08	02/02/2010

Amendments to Subtopic 272-10

7. Amend paragraph 272-10-45-7, with no link to a transition paragraph, as follows:

Limited Liability Entities—Overall

Other Presentation Matters

272-10-45-6 Presentation of comparative financial statements is encouraged, but not required, by Section 205-10-45. If comparative financial statements are presented, amounts shown for comparative purposes shall be in fact comparable with those shown for the most recent period, or any exceptions to comparability shall be disclosed in the notes to financial statements.

272-10-45-7 If the formation of the limited liability company results in a new reporting entity, the guidance in paragraph 250-10-45-21 shall be followed and the change shall be retrospectively applied to the financial statements of all prior periods presented to show financial information for the new reporting entity for those periods.~~financial statements for all prior periods presented shall be restated.~~

8. Amend paragraph 272-10-00-1 as follows:

272-10-00-1 ~~No updates have been made to this subtopic.~~The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
272-10-45-7	Amended	2010-08	02/02/2010

Amendments to Subtopic 320-10

9. Amend paragraph 320-10-55-7 and its related heading, with no link to a transition paragraph, as follows:

Investments—Debt and Equity Securities—Overall

Implementation Guidance and Illustrations

> > Scope Application by ~~Minority~~Noncontrolling Shareholders

320-10-55-7 Paragraph 970-323-25-10 explains that an investment in a corporate subsidiary that is a real estate venture shall be accounted for by the investor-parent using the principles applicable to investments in subsidiaries rather than those applicable to investments in corporate joint ventures. That is, that paragraph requires that ~~minority~~noncontrolling shareholders in such a real estate venture shall account for their investment using the principles applicable to investments in common stock set forth in Topic 323 or this Topic as applicable.

10. Amend paragraph 320-10-00-1, by adding the following item to the table, as follows:

320-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
320-10-55-7	Amended	2010-08	02/02/2010

Amendments to Subtopic 323-10

11. Amend both pending contents for paragraph 323-10-35-33, with no link to a transition paragraph, as follows:

Investments—Equity Method and Joint Ventures—Overall

Subsequent Measurement

323-10-35-33

Pending Content:

Transition Date: December 15, 2008 **Transition Guidance:** 810-10-65-1

Paragraph 323-10-15-12 explains that an investment in common stock of an investee that was previously accounted for on other than the equity method may become qualified for use of the equity method by an increase in the level of ownership described in paragraph 323-10-15-3 (that is, acquisition of additional voting stock by the investor, acquisition or retirement of voting stock by the investee, or other transactions). If an investment qualifies for use of the equity method (that is, falls within the scope of this Subtopic), the investor shall adopt the equity method of accounting. The investment, results of operations (current and prior periods presented), and retained earnings of the investor shall be adjusted retroactively on a step-by-step ~~basis.~~basis as if the equity method had been in effect during all previous periods in which the investment was held. The amount of interest cost capitalized through application of Subtopic 835-20 shall not be changed if restating financial statements of prior periods.

Pending Content:

Transition Date: December 15, 2008 **Transition Guidance:** 805-10-65-1

Paragraph 323-10-15-12 explains that an investment in common stock of an investee that was previously accounted for on other than the equity method may become qualified for use of the equity method by an increase in the level of ownership described in paragraph 323-10-15-3 (that is, acquisition of additional voting stock by the investor, acquisition or retirement of voting stock by the investee, or other transactions). If an investment qualifies for use of the equity method (that is, falls within the scope of this Subtopic), the investor shall adopt the equity method of accounting. The investment, results of operations (current and prior periods presented), and retained earnings of the investor shall be adjusted retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods in which the investment was held ~~on a step-by-step basis~~. The amount of interest cost capitalized through application of Subtopic 835-20 shall not be changed if restating financial statements of prior periods.

12. Amend paragraph 323-10-00-1, by adding the following items to the table, as follows:

323-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
Corporate Joint Venture	Amended	2010-08	02/02/2010
323-10-35-33	Amended	2010-08	02/02/2010

Amendments to Subtopic 350-30

13. Amend paragraph 350-30-25-2, both current and pending text, with no link to a transition paragraph, as follows:

Intangibles—Goodwill and Other—General Intangibles Other than Goodwill

Recognition

350-30-25-1 An intangible asset that is acquired either individually or with a group of other assets shall be recognized.

350-30-25-2 As indicated in paragraph 805-50-30-3, the ~~The~~ cost of a group of assets acquired in a transaction other than a business combination shall be allocated to the individual assets acquired based on their relative fair values and shall not give rise to **goodwill.**

14. Amend paragraph 350-30-30-1, with no change to transition, as follows:

Initial Measurement

350-30-30-1 An intangible asset that is acquired either individually or with a group of other assets (but not those acquired in a business combination) shall be initially measured based on the guidance included in paragraphs 805-50-15-3 and 805-50-30-1 through 30-4.~~its fair value. The fair value of an intangible asset shall be determined based on the assumptions that market participants would use in pricing the asset. An asset that the entity does not intend to use or intends~~

~~to use in a way that is not its highest and best use, such as a brand name or a research and development asset, shall nevertheless be measured at its fair value.~~

15. Supersede paragraph 350-30-30-2, with no change to transition, as follows:

350-30-30-2 Paragraph superseded by Accounting Standards Update 2010-08. ~~General concepts related to the initial measurement of assets acquired in exchange transactions, including **intangible assets**, are provided in paragraphs 805-50-25-1, 805-50-30-1 through 30-4, and 805-50-35-1. Although those paragraphs refer to determining the cost of the assets acquired, paragraph 845-10-30-1 notes that, in general, cost shall be measured based on the fair value of the consideration given or the fair value of the net assets acquired, whichever is more reliably measurable.~~

16. Amend paragraph 350-30-00-1, by adding the following items to the table, as follows:

350-30-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	**Action**	**Accounting Standards Update**	**Date**
350-30-25-2	Amended	2010-08	02/02/2010
350-30-30-1	Amended	2010-08	02/02/2010
350-30-30-2	Superseded	2010-08	02/02/2010

Amendments to Topic 740

17. Amend paragraph 740-10-00-1, by adding the following item to the table, as follows:

740-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	**Action**	**Accounting Standards Update**	**Date**
Corporate Joint Venture	Amended	2010-08	02/02/2010

18. Amend paragraph 740-30-25-7, with no link to a transition paragraph, as follows:

Income Taxes—Other Considerations or Special Areas

Recognition

740-30-25-7 Whether an excess of the amount for financial reporting over the tax basis of an investment in a more-than-50-percent-owned domestic subsidiary is a taxable temporary difference shall be assessed. It is not a taxable temporary difference if the tax law provides a means by which the reported amount of that investment can be recovered tax-free and the entity expects that it will ultimately use that means. For example, tax law may provide that:

a. An entity may elect to determine taxable gain or loss on the liquidation of an 80-percent-or-more-owned subsidiary by reference to the tax basis of the subsidiary's net assets rather than by reference to the **parent** entity's tax basis for the stock of that subsidiary.
b. An entity may execute a statutory merger whereby a subsidiary is merged into the parent entity, the ~~minority~~noncontrolling shareholders receive stock of the parent, the subsidiary's stock is cancelled, and no taxable gain or loss results if the continuity of ownership, continuity of business entity, and certain other requirements of the tax law are met.

19. Amend paragraph 740-30-00-1 as follows:

740-30-00-1 ~~No updates have been made to this subtopic.~~The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
Corporate Joint Venture	Amended	2010-08	02/02/2010
740-30-25-7	Amended	2010-08	02/02/2010

Amendments to Topic 805

20. Amend paragraph 805-30-30-10, with no change to transition, as follows:

Business Combinations—Goodwill or Gain from Bargain Purchase, Including Consideration Transferred

Initial Measurement

805-30-30-10 In ~~some situations,~~situations in which acquiree awards ~~may~~would expire as a consequence of a business ~~combination. If~~ combination and the acquirer replaces those awards even though it is not obligated to do so, all of the fair-value-based measure of the replacement awards shall be recognized as compensation cost in the postcombination financial statements. That is, none of the fair value-based measure of those awards shall be included in measuring the consideration transferred in the business combination.

21. Amend paragraph 805-30-00-1, by adding the following item to the table, as follows:

805-30-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
805-30-30-10	Amended	2010-08	02/02/2010

22. Amend paragraph 805-40-55-19, with no change to transition, as follows:

Business Combinations—Reverse Acquisitions

Implementation Guidance and Illustrations

805-40-55-19 Assume the same facts as in Case A except that only 56 of Entity B's 60 common shares are exchanged. Because Entity A issues 2.5 shares in exchange for each common share of Entity B, Entity A issues only 140 (rather than 150) shares. As a result, Entity B's shareholders own 58.3 percent of the issued shares of the combined entity (140 of 240 issued shares). The fair value of the consideration transferred for Entity A, the accounting acquiree, is calculated by assuming that the combination had been effected by Entity B's issuing additional common shares to the shareholders of Entity A in exchange for their common shares in Entity A. That is because Entity B~~Entity A~~ is the accounting acquirer, and paragraphs 805-30-30-7 through 30-8 require the acquirer to measure the consideration exchanged for the accounting acquiree.

23. Amend paragraph 805-40-00-1, by adding the following item to the table, as follows:

805-40-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
805-40-55-19	Amended	2010-08	02/02/2010

24. Amend paragraphs 805-50-30-1 through 30-3, with no change to transition as, follows:

Business Combinations—Related Issues

Initial Measurement

> Determining Cost

805-50-30-1 Paragraph 805-50-25-1 discusses exchange transactions that trigger the initial recognition of assets acquired and liabilities assumed. Assets are recognized based on their cost to the acquiring entity, which generally includes the transaction costs of the asset acquisition, and no gain or loss is recognized unless the **fair value** of noncash assets given as consideration differs from the assets' carrying amounts on the acquiring entity's books. For transactions involving nonmonetary consideration within the scope of Topic 845, an acquirer must first determine if any of the conditions in paragraph 845-10-30-3 apply.

805-50-30-2 Asset acquisitions in which the consideration given is cash are measured by the amount of cash paid, which generally includes the transaction costs of the asset acquisition. However, if the consideration given is not in the form of cash (that is, in the form of noncash assets, liabilities incurred, or **equity interests** issued), measurement is based on either the cost, which shall be measured based on the fair value of the consideration given ~~to the acquiring entity~~ or the fair value of the assets (or net assets) acquired, whichever is more clearly evident and, thus, more reliably measurable. For transactions involving nonmonetary consideration within the scope of Topic 845, an acquirer must first determine if any of the conditions in paragraph 845-10-30-3 apply.

> Allocating Cost

805-50-30-3 Acquiring assets in groups requires not only ascertaining the cost of the asset (or net asset) group but also allocating that cost to the individual assets (or individual assets and liabilities) that make up the group. The cost of such a group is determined using the concepts described in the preceding two paragraphs. The cost of a group of assets acquired in an asset acquisition shall be~~is~~ allocated to the individual assets acquired or liabilities assumed based on their relative fair values and shall~~does~~ not give rise to **goodwill**. The allocated cost of an asset that the entity does not intend to use or intends to use in a way that is not its highest and best use, such as a brand name, shall be determined based on its relative fair value. See paragraph 805-50-55-1 for an illustration of the relative fair value method to assets acquired outside a business combination.

25. Add paragraph 805-50-55-1 and its related headings, with no link to a transition paragraph, as follows:

Implementation Guidance and Illustrations

General

> Illustrations

> > Example 1: Application of the Relative Fair Value Method

805-50-55-1 This Example illustrates the application of the relative fair value method when assets are acquired in a group outside a business combination as discussed in paragraph 805-50-30-3.

On January 1, 20X9, Entity A purchased land, building, and equipment for $500,000 in cash. Transaction costs of $25,000 were incurred.

To allocate the cost, the fair value of the individual assets is determined based on the guidance in Topic 820.

Asset	Fair Value (Based on Measurement Guidance in Topic 820)	Percent of Total Fair Value	×	Purchase Price + Transaction Costs	=	Allocated Cost of Assets Acquired + Transaction Costs
Land	$ 350,000	61% (a)		$ 525,000		$ 319,565
Building	175,000	30% (b)		525,000		159,783
Equipment	50,000	9% (c)		525,000		45,652
Total	$ 575,000	100%				$ 525,000

(a) $350,000/$575,000 = 61%
(b) $175,000/$575,000 = 30%
(c) $50,000/$575,000 = 9%

26. Amend paragraph 805-50-00-1, by adding the following items to the table, as follows:

805-50-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	**Action**	**Accounting Standards Update**	**Date**
805-50-30-1 through 30-3	Amended	2010-08	02/02/2010
805-50-55-1	Added	2010-08	02/02/2010

Amendments to Subtopic 810-10

27. Amend paragraph 810-10-15-3, with no link to a transition paragraph, as follows:

Consolidation—Overall

Scope and Scope Exceptions

810-10-15-3 All reporting entities shall apply the guidance in the Consolidation Topic to determine whether and how to consolidate another entity and apply the applicable Subsection as follows:

a. If the reporting entity is within the scope of the Variable Interest Entities Subsections, it should first apply the guidance in those Subsections.
b. If the reporting entity has an investment in another entity that is not determined to be a VIE, the reporting entity should use the guidance in the General Subsections to determine whether that interest constitutes a controlling financial interest. Paragraph 810-10-15-8 states that the usual condition for a controlling financial interest is ownership of a majority voting interest, directly or indirectly, of more than 50 percent of the outstanding voting shares. ~~Minority~~Noncontrolling rights may prevent the owner of more than 50 percent of the voting shares from having a controlling financial interest.
c. If the reporting entity has a contractual management relationship with another entity that is not determined to be a VIE, the reporting entity should use the guidance in the Consolidation of Entities Controlled by Contract Subsections to determine whether the arrangement constitutes a controlling financial interest.

28. Amend paragraph 810-10-15-10, both current and pending text, with no link to a transition paragraph, as follows:

810-10-15-10 A reporting entity shall apply consolidation guidance for entities that are not in the scope of the Variable Interest Entities Subsections (see the Variable Interest Entities Subsection of this Section) as follows:

a. All majority-owned subsidiaries—all entities in which a parent has a controlling financial interest—shall be consolidated. However, there are exceptions to this general rule.
    1. A majority-owned subsidiary shall not be consolidated if control does not rest with the majority **owner**—for instance, if any of the following are present:
        i. The subsidiary is in legal reorganization
        ii. The subsidiary is in bankruptcy
        iii. The subsidiary 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.
        iv. In some instances, the powers of a shareholder with a majority voting interest to control the operations or assets of the investee are restricted in certain respects by approval or veto rights granted to the ~~minority~~noncontrolling shareholder (hereafter referred to as ~~minority~~noncontrolling rights). In paragraphs 810-10-25-2 through 25-14, the term *~~minority~~noncontrolling shareholder* refers to one or more ~~minority~~noncontrolling shareholders. Those ~~minority~~noncontrolling rights may have little or no impact on the ability of a shareholder with a majority voting interest to control the investee's operations or assets, or, alternatively, those

rights may be so restrictive as to call into question whether control rests with the majority owner.

v. Control exists through means other than through ownership of a majority voting interest, for example as described in (b) through (e).

2. A majority-owned subsidiary in which a parent has a controlling financial interest shall not be consolidated if the parent is a broker-dealer within the scope of Topic 940 and control is likely to be temporary.
3. Except as discussed in paragraph 946-810-45-3, consolidation by an investment company within the scope of Topic 946 of a non-investment-company investee is not appropriate.

b. Subtopic 810-20 shall be applied to determine whether the rights of the limited partners in a limited partnership overcome the presumption that the general partner controls, and therefore should consolidate, the partnership.
c. Subtopic 810-30 shall be applied to determine the consolidation status of a research and development arrangement.
d. The Consolidation of Entities Controlled by Contract Subsections of this Subtopic shall be applied to determine whether a contractual management relationship represents a controlling financial interest.
e. Paragraph 710-10-45-1 addresses the circumstances in which the accounts of a rabbi trust that is not a VIE (see the Variable Interest Entities Subsections for guidance on VIEs) shall be consolidated with the accounts of the employer in the financial statements of the employer.

29. Amend paragraph 810-10-15-14(b)(1), both current and pending text, with no link to a transition paragraph, as follows:

[Note: For ease of use, the remainder of this paragraph, which is unaffected by the amendments in this Update, has been omitted.]

810-10-15-14

b. As a group the holders of the equity investment at risk lack any one of the following three characteristics:
   1. The power, through voting rights or similar rights, to direct the activities of a legal entity that most significantly impact the entity's economic performance. The investors do not have that power through voting rights or similar rights if no **owners** hold voting rights or similar rights (such as those of a common shareholder in a corporation or a general partner in a partnership). Legal entities that are not controlled by the holder of a majority voting interest because of ~~minority~~<u>noncontrolling shareholder</u> veto rights as discussed in paragraphs 810-10-25-2 through 25-14 are not VIEs if the shareholders as a group have the power to control the entity

and the equity investment meets the other requirements of the Variable Interest Entities Subsections. **Kick-out rights** or **participating rights** held by the holders of the equity investment at risk shall not prevent interests other than the equity investment from having this characteristic unless a single equity holder (including its related parties and de facto agents) has the unilateral ability to exercise those rights. Alternatively, interests other than the equity investment at risk that provide the holders of those interests with kick-out rights or participating rights shall not prevent the equity holders from having this characteristic unless a single reporting entity (including its related parties and de facto agents) has the unilateral ability to exercise those rights. A decision maker also shall not prevent the equity holders from having this characteristic unless the fees paid to the decision maker represent a variable interest based on paragraphs 810-10-55-37 through 55-38.

30. Amend paragraphs 810-10-25-2 through 25-7 and their related heading, with no link to a transition paragraph, as follows:

Recognition

> The Effect of ~~Minority~~Noncontrolling Rights on Consolidation

810-10-25-2 Paragraph 810-10-15-10(a)(1)(iv) explains that, in some instances, the powers of a shareholder with a majority voting interest to control the operations or assets of the investee are restricted in certain respects by approval or veto rights granted to the ~~minority~~noncontrolling shareholder (referred to as ~~minority~~noncontrolling rights). That paragraph also explains that, in paragraphs 810-10-25-2 through 25-14, the term *~~minority~~noncontrolling shareholder* refers to one or more ~~minority~~noncontrolling shareholders. Paragraph 810-10-15-10(a)(1)(iv) explains that those ~~minority~~noncontrolling rights may have little or no impact on the ability of a shareholder with a majority voting interest to control the investee's operations or assets, or, alternatively, those rights may be so restrictive as to call into question whether control rests with the majority owner.

810-10-25-3 The guidance in paragraphs 810-10-25-1 through 25-14 shall be applied in assessing the impact on consolidation of ~~minority~~noncontrolling shareholder approval or veto rights in both of the following circumstances:

a. Investments in which the investor has a majority voting interest in investees that are corporations or analogous entities (such as limited liability companies that have governing provisions that are the functional equivalent of regular corporations)
b. In other circumstances in which corporate investees would be consolidated in accordance with generally accepted accounting principles (GAAP), absent the existence of certain approval or veto rights held by ~~minority~~noncontrolling shareholders.

810-10-25-4 The guidance in paragraphs 810-10-25-2 through 25-14 on ~~minority~~noncontrolling rights does not apply in either of the following situations:

a. Entities that, in accordance with GAAP, carry substantially all of their assets, including investments in controlled entities, at fair value with changes in value reported in a statement of net income or financial performance
b. Investments in noncorporate entities and **variable interest entities** (VIEs) (see the Variable Interest Entities Subsection of Section 810-10-15~~Section 810–10–15~~).

810-10-25-5 The assessment of whether the rights of a ~~minority~~noncontrolling shareholder should overcome the presumption of consolidation by the investor with a majority voting interest in its investee is a matter of judgment that depends on facts and circumstances. The framework in which such facts and circumstances are judged shall be based on whether the ~~minority~~noncontrolling rights, individually or in the aggregate, provide for the ~~minority~~noncontrolling shareholder to effectively participate in significant decisions that would be expected to be made in the ordinary course of business. Effective participation means the ability to block significant decisions proposed by the investor who has a majority voting interest. That is, control does not rest with the majority owner because the investor with the majority voting interest cannot cause the investee to take an action that is significant in the ordinary course of business if it has been vetoed by the ~~minority~~noncontrolling shareholder. This assessment of ~~minority~~noncontrolling rights shall be made at the time a majority voting interest is obtained and shall be reassessed if there is a significant change to the terms or in the exercisability of the rights of the ~~minority~~noncontrolling shareholder.

810-10-25-6 All ~~minority~~noncontrolling rights could be described as protective of the ~~minority~~noncontrolling shareholder's investment in the investee, but some ~~minority~~noncontrolling rights also allow the ~~minority~~noncontrolling shareholder to participate in determining certain financial and operating decisions of the investee that are made in the ordinary course of business (referred to as participating rights). Participation means the ability to block actions proposed by the investor that has a majority voting interest. Thus, the investor with the majority voting interest must have the ~~minority's~~ agreement of the noncontrolling shareholder to take certain actions. Participation does not mean the ability of the ~~minority~~noncontrolling shareholder to initiate actions.

810-10-25-7 ~~Minority~~Noncontrolling rights that are only protective in nature (referred to as protective rights) would not overcome the presumption that the owner of a majority voting interest shall consolidate its investee. Substantive ~~minority~~noncontrolling rights that provide the ~~minority~~noncontrolling shareholder with the right to effectively participate in significant decisions that would be expected to be related to the investee's ordinary course of business, although also protective of the ~~minority~~noncontrolling shareholder's investment, shall overcome the presumption that the investor with a majority voting interest shall consolidate its investee.

31. Amend paragraphs 810-10-25-9 through 25-12, with no link to a transition paragraph, as follows:

810-10-25-9 The following guidance addresses considerations of noncontrolling shareholder rights,~~minority rights considerations,~~ specifically:

a. Protective rights
b. Substantive participating rights
c. Factors to consider in evaluating ~~minority~~noncontrolling shareholder rights.

> > Protective Rights

810-10-25-10 ~~Minority~~Noncontrolling rights (whether granted by contract or by law) that would allow the ~~minority~~noncontrolling shareholder to block corporate actions would be considered protective rights and would not overcome the presumption of consolidation by the investor with a majority voting interest in its investee. The following list is illustrative of the protective rights that often are provided to the ~~minority~~noncontrolling shareholder but is not all-inclusive:

a. Amendments to articles of incorporation of the investee
b. Pricing on transactions between the owner of a majority voting interest and the investee and related self-dealing transactions
c. Liquidation of the investee or a decision to cause the investee to enter bankruptcy or other receivership
d. Acquisitions and dispositions of assets that are not expected to be undertaken in the ordinary course of business (~~minority~~noncontrolling rights relating to acquisitions and dispositions of assets that are expected to be made in the ordinary course of business are participating rights; determining whether such rights are substantive requires judgment in light of the relevant facts and circumstances [see paragraphs 810-10-25-13 and 810-10-55-1])
e. Issuance or repurchase of equity interests.

> > Substantive Participating Rights

810-10-25-11 ~~Minority~~Noncontrolling rights (whether granted by contract or by law) that would allow the ~~minority~~noncontrolling shareholder to effectively participate in either of the following corporate actions shall be considered substantive participating rights and would overcome the presumption that the investor with a majority voting interest shall consolidate its investee. The following list is illustrative of substantive participating rights, but is not necessarily all-inclusive:

a. Selecting, terminating, and setting the compensation of management responsible for implementing the investee’s policies and procedures

b. Establishing operating and capital decisions of the investee, including budgets, in the ordinary course of business.

810-10-25-12 The rights noted in the preceding paragraph are participating rights because, in the aggregate, the rights allow the ~~minority~~noncontrolling shareholder to effectively participate in decisions that occur as part of the ordinary course of the investee's business and are significant factors in directing and carrying out the activities of the business. Individual rights, such as the right to veto the termination of management responsible for implementing the investee's policies and procedures, should be assessed based on the facts and circumstances to determine if they are substantive participating rights in and of themselves. However, ~~minority~~noncontrolling rights that appear to be participating rights but that by themselves are not substantive (see paragraphs 810-10-25-13 and 810-10-55-1) would not overcome the presumption of consolidation by the investor with a majority voting interest in its investee. The likelihood that the veto right will be exercised by the ~~minority~~noncontrolling shareholder should not be considered when assessing whether a ~~minority~~noncontrolling right is a substantive participating right.

32. Amend paragraphs 810-10-25-13 through 25-14 and their related heading, with no link to a transition paragraph, as follows:

> > Factors to Consider in Evaluating ~~Minority~~Noncontrolling Rights

810-10-25-13 The following factors shall be considered in evaluating whether ~~minority~~noncontrolling rights that appear to be participating are substantive rights, that is, whether these factors provide for effective participation in significant decisions related to the investee's ordinary course of business:

a. Consideration shall be given to situations in which a majority shareholder owns such a significant portion of the investee that the ~~minority~~noncontrolling shareholder has a small economic interest. As the disparity between the ownership interest of majority and ~~minority~~noncontrolling shareholders increases, the rights of the ~~minority~~noncontrolling shareholder are presumptively more likely to be protective rights and shall raise the level of skepticism about the substance of the right. Similarly, although a majority owner is presumed to control an investee, the level of skepticism about such ability shall increase as the investor's economic interest in the investee decreases.
b. The corporate governance arrangements shall be considered to determine at what level decisions are made—at the shareholder level or at the board level—and the rights at each level also shall be considered. In all situations, any matters that can be put to a vote of the shareholders shall be considered to determine if other investors, individually or in the aggregate, have substantive participating rights by virtue of their ability to vote on matters submitted to a shareholder vote.
c. Relationships between the majority and ~~minority~~noncontrolling shareholders (other than investment in the common investee) that are of

a related-party nature, as defined in Topic 850, shall be considered in determining if the participating rights of the ~~minority~~noncontrolling shareholder are substantive. For example, if the ~~minority~~noncontrolling shareholder in an investee is a member of the immediate family of the majority shareholder of the investee, then the rights of the ~~minority~~noncontrolling shareholder likely would not overcome the presumption of consolidation by the investor with a majority voting interest in its investee.

d. Certain ~~minority~~noncontrolling rights may deal with operating or capital decisions that are not significant to the ordinary course of business of the investee. ~~Minority~~Noncontrolling rights related to items that are not considered significant for directing and carrying out the activities of the investee's business are not substantive participating rights and would not overcome the presumption of consolidation by the investor with a majority voting interest in its investee. Examples of such ~~minority~~noncontrolling rights relate to decisions about location of investee headquarters, name of investee, selection of auditors, and selection of accounting principles for purposes of separate reporting of investee operations.

e. Certain ~~minority~~noncontrolling rights may provide for the ~~minority~~noncontrolling shareholder to participate in significant decisions that would be expected to be made in certain business activities in the ordinary course of business; however, the existence of such ~~minority~~noncontrolling rights shall not overcome the presumption that the majority shall consolidate, if it is remote that the event or transaction that requires ~~minority~~noncontrolling shareholder approval will occur. Remote is defined in Topic 450 as the chance of the future event or events occurring being slight.

f. An owner of a majority voting interest who has a contractual right to buy out the interest of the ~~minority~~noncontrolling shareholder in the investee for fair value or less shall consider the feasibility of exercising that contractual right when determining if the participating rights of the ~~minority~~noncontrolling shareholder are substantive. If such a buyout is prudent, feasible, and substantially within the control of the majority owner, the majority owner's contractual right to buy out the ~~minority~~noncontrolling owner demonstrates that the participating right of the ~~minority~~noncontrolling shareholder is not a substantive right. The existence of such call options, for purposes of the General Subsections, negate the participating rights of the ~~minority~~noncontrolling shareholder to veto an action of the majority shareholder, rather than create an additional ownership interest for that majority shareholder. It would not be prudent, feasible, and substantially within the control of the majority owner to buy out the ~~minority~~noncontrolling shareholder if, for example, the ~~minority~~noncontrolling shareholder controls technology that is critical to the investee or the ~~minority~~noncontrolling shareholder is the principal source of funding for the investee.

810-10-25-14 An entity that is not controlled by the holder of a majority voting interest because of ~~minority~~noncontrolling shareholder veto rights described in paragraphs 810-10-25-2 through 25-13 and 810-10-55-1 is not a VIE if the shareholders as a group have the power to control the entity and the equity investment meets the other requirements of paragraphs 810-10-25-45 through 25-47, as applicable.

33. Amend paragraph 810-10-50-15, with no change to transition, as follows:

Disclosure

810-10-50-15 A **public entity** that holds a significant variable interest or is a sponsor that holds a variable interest in a VIE, but is not the VIE's primary beneficiary, shall disclose all of the following:

a. The carrying amount and classification of the assets and liabilities in the reporting entity's statement of financial position that relate to the reporting entity's variable interest in the VIE.
b. The reporting entity's maximum exposure to loss as a result of its involvement with the VIE, including both of the following:
   1. How the maximum exposure is determined
   2. The significant sources of the reporting entity's exposure to the VIE.

   If the reporting entity's maximum exposure to loss as a result of its involvement with the VIE cannot be quantified, that fact shall be disclosed.
c. A tabular comparison of the carrying amount of the liability (as required by item (a)) and the reporting entity's maximum exposure to loss (as required by item (b)). The reporting entity shall provide qualitative and quantitative information to allow financial statement users to understand the differences between the two amounts. Such discussion shall consider, but is not limited to, the terms of arrangements, giving consideration to both explicit arrangements and implicit variable interests, that could require the reporting entity to provide financial support (for example, liquidity arrangements and obligations to purchase assets) to the VIE, including events or circumstances that could expose the reporting entity to a loss.

A ~~reporting~~public entity meeting items (a) through (c) in this paragraph is encouraged to disclose information about any liquidity arrangements, ~~guarantees~~guarantees, and/or other commitments by third parties that may affect the fair value or risk of the reporting entity's variable interest in the VIE.

34. Amend paragraph 810-10-55-1 and its related heading, with no link to a transition paragraph, as follows:

Implementation Guidance and Illustrations

> > Assessing Individual ~~Minority~~Noncontrolling Rights

810-10-55-1 Examples of how to assess individual ~~minority~~noncontrolling rights facilitate the understanding of how to assess whether the rights of the ~~minority~~noncontrolling shareholder should be considered protective or participating and, if participating, whether the rights are substantive. Although the following examples illustrate the possible assessments of individual ~~minority~~noncontrolling rights, the evaluation of ~~minority~~noncontrolling rights shall consider all of the factors identified in paragraph 810-10-25-13 to determine whether the ~~minority~~noncontrolling rights, individually or in the aggregate, provide for the ~~minority~~noncontrolling shareholder to effectively participate in significant decisions that would be expected to be made in the ordinary course of business:

a. The rights of the ~~minority~~noncontrolling shareholder relating to the approval of acquisitions and dispositions of assets that are expected to be undertaken in the ordinary course of business may be substantive participating rights. Rights related only to acquisitions that are not expected to be undertaken in the ordinary course of the investee's existing business usually are ~~protective,~~protective and would not overcome the presumption of consolidation by the investor with a majority voting interest in its investee. Whether a right to approve the acquisition or disposition of assets is in the ordinary course of business should be based on an evaluation of the relevant facts and circumstances. In addition, if approval by the shareholder is necessary to incur additional indebtedness to finance an acquisition that is not in the investee's ordinary course of business, then the approval by the ~~minority~~noncontrolling shareholder would be considered a protective right.
b. Existing facts and circumstances should be considered in assessing whether the rights of the ~~minority~~noncontrolling shareholder relating to an investee's incurring additional indebtedness are protective or participating rights. For example, if it is reasonably possible or probable that the investee will need to incur the level of borrowings that requires ~~minority~~noncontrolling shareholder approval in its ordinary course of business, the rights of the ~~minority~~noncontrolling shareholder would be viewed as substantive participating rights.
c. The rights of the ~~minority~~noncontrolling shareholder relating to dividends or other distributions may be protective or participating and should be assessed in light of the available facts and circumstances. For example, rights to block customary or expected dividends or other distributions may be substantive participating rights, while rights to block extraordinary distributions would be protective rights.
d. The rights of the ~~minority~~noncontrolling shareholder relating to an investee's specific action (for example, to lease property) in an existing business may be protective or participating and should be assessed in light of the available facts and circumstances. For example, if the investee had the ability to purchase, rather than lease, the property without requiring the approval of the ~~minority~~noncontrolling shareholder,

then the rights of the ~~minority~~noncontrolling shareholder to block the investee from entering into a lease would not be substantive.

e. The rights of the ~~minority~~noncontrolling shareholder relating to an investee's negotiation of collective bargaining agreements with unions may be protective or participating and should be assessed in light of the available facts and circumstances. For example, if an investee does not have a collective bargaining agreement with a union or if the union does not represent a substantial portion of the investee's work force, then the rights of the ~~minority~~noncontrolling shareholder to approve or veto a new or broader collective bargaining agreement are not substantive.

f. Provisions that govern what will occur if the ~~minority~~noncontrolling shareholder blocks the action of an **owner** of a majority voting interest need to be considered to determine whether the right of the ~~minority~~noncontrolling shareholder to block has substance. For example, if the shareholder agreement provides that if the ~~minority~~noncontrolling shareholder blocks the approval of an operating budget, then the budget simply defaults to last year's budget adjusted for inflation, and if the investee is a mature business for which year-to-year operating budgets would not be expected to vary significantly, then the rights of the ~~minority~~noncontrolling shareholder to block the approval of the operating budget do not allow the ~~minority~~noncontrolling shareholder to effectively participate and are not substantive.

g. ~~Minority~~Noncontrolling rights relating to the initiation or resolution of a lawsuit may be considered protective or participating depending on the available facts and circumstances. For example, if lawsuits are a part of the entity's ordinary course of business, as is the case for some insurance entities, then the ~~minority~~noncontrolling rights may be considered a substantive participating right.

h. A ~~minority~~noncontrolling shareholder has the right to veto the annual operating budget for the first X years of the relationship. Based on the facts and circumstances, during the first X years of the relationship this right may be a substantive participating right. However, following Year X there is a significant change in the exercisability of the ~~minority~~noncontrolling right (for example, the veto right terminates). As of the beginning of the period following Year X, that right would no longer be a substantive participating right and would not overcome the presumption of consolidation by the investor with a majority voting interest in its investee.

35. Amend paragraph 810-10-00-1, by adding the following items to the table, as follows:

810-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
810-10-15-3	Amended	2010-08	02/02/2010
810-10-15-10	Amended	2010-08	02/02/2010
810-10-15-14	Amended	2010-08	02/02/2010
810-10-25-2 through 25-7	Amended	2010-08	02/02/2010
810-10-25-9 through 25-14	Amended	2010-08	02/02/2010
810-10-50-15	Amended	2010-08	02/02/2010
810-10-55-1	Amended	2010-08	02/02/2010

Amendments to Topic 815

36. Amend paragraph 815-10-00-1, by adding the following item to the table, as follows:

815-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
Credit Risk	Amended	2010-08	02/02/2010

37. Amend paragraph 815-15-25-26, with a link to transition paragraph 815-15-65-1, as follows:

Derivatives and Hedging—Embedded Derivatives

Recognition

815-15-25-26 For purposes of applying the provisions of paragraph 815-15-25-1, an embedded derivative in which the only **underlying** is an interest rate or interest rate index (such as an interest rate cap or an interest rate collar) that alters net interest payments that otherwise would be paid or received on an interest-bearing host contract that is considered a debt instrument is considered to be clearly and closely related to the host contract unless either of the following conditions exists:

a. The hybrid instrument can contractually be settled in such a way that the investor (the holder or the creditor) would not recover substantially all of its initial recorded investment (that is, the embedded derivative contains a provision that permits any possibility whatsoever that the investor's [the holder's or the creditor's] undiscounted net cash inflows over the life of the instrument would not recover substantially all of its initial recorded investment in the hybrid instrument under its contractual terms).

b. The embedded derivative meets both of the following conditions:
   1. There is a possible future interest rate scenario (even though it may be remote) under which the embedded derivative would at least double the investor's initial rate of return on the host contract (that is, the embedded derivative contains a provision that could under any possibility whatsoever at least double the investor's initial rate of return on the host contract).
   2. For any~~each~~ of the possible interest rate scenarios under which the investor's initial rate of return on the host contract would be doubled (as discussed in ~~[b][1]~~ (b)(1)), the embedded derivative would at the same time result in a rate of return that is at least twice what otherwise would be the then-current market return (under the relevant~~each of those~~ future interest rate ~~scenarios~~scenario) for a contract that has the same terms as the host contract and that involves a debtor with a credit quality similar to the issuer's credit quality at inception.

38. Amend paragraphs 815-15-25-40 through 25-42, with no link to a transition paragraph, as follows:

815-15-25-40 Provided the call (put) options also are considered to be clearly and closely related to the debt host contract under paragraph 815-15-25-26, call (put) options that can accelerate the repayment of principal on a debt instrument are considered to be clearly and closely related to a debt instrument that requires principal repayments unless both of the following conditions exist:

a. The debt involves a substantial premium or discount (which is common with zero-coupon bonds).
b. The call (put) option is only contingently exercisable.

815-15-25-41 ~~Thus, if a substantial premium or discount is not involved, embedded call (put) options (including contingent call [put] options that are not exercisable unless an event of default occurs) would not be separated from the host contract. However, for~~For contingently exercisable call (put) options to be considered clearly and closely related, they can be indexed only to interest rates or **credit risk**, not some extraneous event or factor. In contrast, call (put) options that do not accelerate the repayment of principal on a debt instrument but instead require a cash settlement that is equal to the price of the option at the date of exercise would not be considered to be clearly and closely related to the debt instrument in which it is embedded.

815-15-25-42 The following four-step decision sequence shall be followed in determining whether call (put) options that can accelerate the settlement of debt instruments shall be considered to be clearly and closely related to the debt host contract:

Step 1: Is the amount paid upon settlement (also referred to as the payoff) adjusted based on changes in an index (rather than simply being the repayment of principal at par, together with any unpaid accrued interest)? If yes, continue to Step 2. If no, continue to Step 3.

Step 2: Is the payoff indexed to an underlying other than interest rates or credit risk? If yes, then that embedded feature is not clearly and closely related to the debt host contract and further analysis under Steps 3 and 4 is not required. If no, then that embedded feature shall be analyzed further under Steps 3 and 4 as well as under the provisions of paragraphs 815-15-25-1 and 815-15-25-26.

Step 3: Does the debt involve a substantial premium or discount? If yes, continue to Step 4. If no, in accordance with paragraphs 815-15-25-40 through 25-41~~25-43~~, further analysis of the contract under paragraph 815-15-25-26 is required to determine whether the call (put) option is clearly and closely related to the debt host ~~contract.~~contract if paragraph 815-15-25-26 is applicable.

Step 4: Does a contingently exercisable call (put) option accelerate the repayment of the contractual principal amount? If yes, the call (put) option is not clearly and closely related to the debt instrument. If not contingently exercisable, in accordance with paragraphs 815-15-25-40 through 25-41, further analysis of the contract under paragraph 815-15-25-26 is required to determine whether the call (put) option is clearly and closely related to the debt host contract.

39. Amend paragraph 815-15-55-13, with a link to transition paragraph 815-15-65-1, as follows:

Implementation Guidance and Illustrations

815-15-55-13 The following table demonstrates the application of the four-step decision sequence in paragraph 815-15-25-42 for determining whether call options and put options that can accelerate the settlement of debt instruments should be considered to be clearly and closely related to the debt host contract under the criterion in paragraph 815-15-25-1(a).

Instrument	Indexed Payoff? (Steps 1 and 2)	Substantial Discount or Premium? (Step 3)	Contingently Exercisable? (Step 4)	Embedded Option Clearly and Closely Related?
1. Debt that is issued at a substantial discount is callable at any time during its 10-year term. If the debt is called, the investor receives the par value of the debt plus any unpaid and accrued interest.	No.	Yes.	No.	The embedded call option is clearly and closely related to the debt host contract because the payoff is not indexed ~~to an underlying other than interest rates or credit risk,~~ and the call option is not contingently exercisable.
2. Debt that is issued at par is callable at any time during its term. If the debt is called, the investor receives the greater of the par value of the debt or the market value of 100,000 shares of XYZ common stock (an unrelated entity).	Yes, based on an equity price.	N/A. Analysis not required.	N/A. Analysis not required.	The embedded call option is not clearly and closely related to the debt host contract because the payoff is indexed to an equity price.
3. Debt that is issued at par is puttable if the Standard and Poor's S&P 500 Index increases by at least 20 percent. If the debt is put, the investor receives the par amount of the debt adjusted for the percentage increase in the S&P 500.	Yes, based on an equity index (S&P 500).	N/A. Analysis not required.	N/A. Analysis not required.	The embedded put option is not clearly and closely related to the debt host contract because the payoff is indexed to an equity price.
4. Debt that is issued at a substantial discount is puttable at par if London Interbank Offered Rate (LIBOR) either increases or decreases by 150 basis points.	No.	Yes.	Yes, contingent on a movement of LIBOR of at least 150 basis points.	The put option is not clearly and closely related to the debt host contract because the debt was issued at a substantial discount and the put option is contingently exercisable.

Instrument	Indexed Payoff? (Steps 1 and 2)	Substantial Discount or Premium? (Step 3)	Contingently Exercisable? (Step 4)	Embedded Option Clearly and Closely Related?
5. Debt that is issued at a substantial discount is puttable at par in the event of a change in control.	No.	Yes.	Yes, contingent on a change in control.	The put option is not clearly and closely related to the debt host contract because the debt was issued at a substantial discount and the put option is contingently exercisable.
6. Zero coupon debt is issued at a substantial discount and is callable in the event of a change in control. If the debt is called, the issuer pays the accreted value (calculated per amortization table based on the effective interest rate method).	No.	Yes.	Yes, contingent on a change in control, but since the debt is callable at accreted value, the call option does not accelerate the repayment of principal.	The call option is clearly and closely related to the debt host contract. Although the debt was issued at a substantial discount and the call option is contingently exercisable, the call option does not accelerate the repayment of principal because the debt is callable at the accreted value.
7. Debt that is issued at par is puttable at par in the event that the issuer has an initial public offering.	No.	No.	N/A. Analysis not required.	~~Further analysis under paragraphs 815-25-26 through 25-29 is required.~~The embedded put option is clearly and closely related to the debt host contract because the debt was issued at par (not at a substantial discount) and is puttable at par. Paragraph 815-15-25-26 does not apply.
8. Debt that is issued at par is puttable if the price of the common stock of Entity XYZ (an entity unrelated to the issuer or investor) changes by 20 percent. If the debt is put, the investor will be repaid based on the value of Entity XYZ's common stock.	Yes, based on an equity price (price of Entity XYZ's common stock).	N/A. Analysis not required.	N/A. Analysis not required.	The embedded put option is not clearly and closely related to the debt host contract because the payoff is indexed to an equity price.
9. Debt is issued at a slight discount and is puttable if interest rates move 200 basis points. If the debt is put, the investor will be repaid based on the S&P 500.	Yes, based on an equity index (S&P 500).	N/A. Analysis not required.	N/A. Analysis not required.	The embedded put option is not clearly and closely related to the debt host contract because the payoff is based on an equity index.

40. Amend paragraph 815-15-55-212, with no link to a transition paragraph, as follows:

815-15-55-212 This instrument can be viewed as combining a loan at prevailing market interest rates and a foreign currency option. The lender has written a foreign currency option exposing it to changes in foreign currency exchange rates during the outstanding period of the loan. The premium for the option has been paid as part of the interest rate. Because the borrower has the option to repay the loan in U.S. dollars or in a fixed amount of a specified foreign currency, the provisions of paragraph 815-15-15-10 are not relevant to this Case. That paragraph addresses foreign-currency-denominated interest or principal payments but does not apply to foreign currency ~~options.~~options embedded in a functional-currency-denominated debt host contract. Because a foreign currency option is not clearly and closely related to issuing a loan, the embedded option should be separated from the host contract and accounted for by both parties pursuant to the provisions of this Subtopic. In contrast, if both the principal payment and the interest payments on the loan had been payable only in a fixed amount of a specified foreign currency, there would be no embedded foreign currency derivative pursuant to this Subtopic.

41. Add paragraph 815-15-65-1 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2010-08, *Technical Corrections to Various Topics*

815-15-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2010-08, *Technical Corrections to Various Topics:*

a. The pending content that links to this paragraph shall be effective for fiscal years beginning after December 15, 2009, and shall be applied to existing contracts (hybrid instruments) containing embedded derivative features at the date of adoption to determine whether the embedded derivative is required, under the revised guidance in the pending content that links to this paragraph, to be separated from the host contract and accounted for separately.
b. If a contract (that is, hybrid instrument) is required to be separated into a host contract and a derivative instrument under paragraphs 815-15-15-8 through 15-9, and if the contract is a hybrid financial instrument, the entity may elect the fair value option (see Subtopic 825-10) at adoption of the pending content that links to this paragraph; that is, the entity may irrevocably elect to measure that contract in its entirety at fair value (with changes in fair value recognized in earnings).
    1. The election of the fair value option at adoption of the pending content that links to this paragraph shall be determined on an instrument-by-instrument basis and supported by documentation completed by the end of the fiscal quarter of initial adoption.

2. If the fair value option is not elected for a hybrid contract that is required to be separated into a host contract and a derivative instrument under paragraphs 815-15-15-8 through 15-9, the carrying amount of the host contract at adoption of the pending content that links to this paragraph shall be based upon a pro forma bifurcation as of the inception of the hybrid contract and the host contract's subsequent accounting to the date of adoption.
3. At adoption, any difference between the total carrying amount of the individual components of the newly bifurcated hybrid instrument and the carrying amount of the hybrid instrument before bifurcation shall be recognized as a cumulative-effect adjustment to beginning retained earnings for the period of adoption.

c. For any contract containing embedded derivative features that have previously been bifurcated but are no longer subject to the application of paragraph 815-15-25-26 and, consequently, shall not be bifurcated from the host contract, the carrying amount of the combined hybrid instrument at adoption shall be the total carrying amount of the individual components of the preexisting bifurcated hybrid instrument. No cumulative-effect adjustment to beginning retained earnings for the period of adoption shall be warranted.

42. Amend paragraph 815-15-00-1 as follows:

815-15-00-1 ~~No updates have been made to this subtopic.~~The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
Credit Risk	Amended	2010-08	02/02/2010
815-15-25-26	Amended	2010-08	02/02/2010
815-15-25-40 through 25-42	Amended	2010-08	02/02/2010
815-15-55-13	Amended	2010-08	02/02/2010
815-15-55-212	Amended	2010-08	02/02/2010
815-15-65-1	Added	2010-08	02/02/2010

43. Amend paragraph 815-20-25-15, both current and pending text, with no link to a transition paragraph, as follows:

Derivatives and Hedging—Hedging—General

Recognition

[Note: For ease of use, the remainder of this paragraph, which is unaffected by the amendments in this Update, has been omitted.]

815-20-25-15 A forecasted transaction is eligible for designation as a hedged transaction in a cash flow hedge if all of the following additional criteria are met:

- j. If the hedged transaction is the forecasted purchase or sale of a financial asset or liability (or the interest payments on that financial asset or liability) or the variable cash inflow or outflow of an existing financial asset or liability, the designated risk being hedged is any of the following:
  1. The risk of overall changes in the hedged cash flows related to the asset or liability, such as those relating to all changes in the purchase price or sales price (regardless of whether that price and the related cash flows are stated in the entity's functional currency or a foreign currency)
  2. The risk of changes in its cash flows attributable to changes in the designated benchmark interest rate (referred to as interest rate risk)
  3. The risk of changes in the functional-currency-equivalent cash flows attributable to changes in the related foreign currency exchange rates (referred to as foreign exchange risk)
  4. The risk of changes in its cash flows attributable to all of the following (referred to as credit risk):
     - i. Default
     - ii. Changes in the obligor's creditworthiness
     - iii. Changes in the spread over the benchmark interest rate with respect to the related financial asset's or liability's~~hedged item's~~ credit sector at inception of the hedge.

44. Amend paragraph 815-20-00-1, by adding the following items to the table, as follows:

815-20-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
Credit Risk	Amended	2010-08	02/02/2010
815-20-25-15	Amended	2010-08	02/02/2010

45. Amend paragraph 815-30-35-3, with no link to a transition paragraph, as follows:

Derivatives and Hedging—Cash Flow Hedges

Subsequent Measurement

815-30-35-3 The effective portion of the gain or loss on a derivative instrument designated as a cash flow hedge is reported in other comprehensive income, and the ineffective portion is reported in earnings. More specifically, a qualifying cash flow hedge shall be accounted for as follows:

a. If an entity's defined risk management strategy for a particular hedging relationship excludes a specific component of the gain or loss, or related cash flows, on the hedging derivative from the assessment of hedge effectiveness (as discussed in paragraphs 815-20-25-81 through 25-83), that excluded component of the gain or loss shall be recognized currently in earnings. For example, if the effectiveness of a hedging relationship with an option is assessed based on changes in the option's **{Glossary link} intrinsic value {Glossary link}**, the changes in the option's **{Glossary link} time value {Glossary link}** would be recognized in earnings.
b. Accumulated other comprehensive income associated with the hedged **transaction** shall be adjusted to a balance that reflects the lesser of the following (in absolute amounts):
    1. The cumulative gain or loss on the derivative instrument from inception of the hedge less both of the following:
        i. The excluded component discussed in (a)
        ii. The derivative instrument's gains or losses previously reclassified from accumulated other comprehensive income into earnings pursuant to paragraphs 815-30-35-38 through 35-41.
    2. The portion of the cumulative gain or loss on the derivative instrument necessary to offset the cumulative change in expected future cash flows on the hedged transaction from inception of the hedge less the derivative instrument's gains or losses previously reclassified from accumulated other comprehensive income into earnings pursuant to paragraphs 815-30-35-38 through 35-41.

    That adjustment of accumulated other comprehensive income shall incorporate recognition in other comprehensive income of part or all of the gain or loss on the hedging derivative, as necessary. If hedge accounting has not been applied to a cash flow hedging relationship in a previous effectiveness assessment period because the entity's retrospective evaluation indicated that the relationship had not been highly effective in achieving offsetting changes in cash flows in that period, the cumulative gain or loss on the derivative referenced in (b) would exclude the gains or losses occurring during that period. Similarly, the cumulative change in expected future cash flows on the hedged transaction would exclude the changes related to that period when hedge accounting has not been applied. That situation may arise if the entity had previously determined, for example, under a regression analysis or other appropriate statistical analysis approach used for prospective assessments of hedge effectiveness, that there was an expectation in which the hedging relationship would be highly effective in future periods. Consequently, the hedging relationship continued even though hedge accounting was not permitted for a specific previous effectiveness assessment period.

c. A gain or loss shall be recognized in earnings, as necessary, for any remaining gain or loss on the hedging derivative or to adjust other comprehensive income to the balance specified in (b).
d. If a non-option-based contract is the hedging instrument in a cash flow hedge of the variability of the functional-currency-equivalent cash flows for a recognized foreign-currency-denominated asset or liability that is remeasured at spot exchange rates under paragraph 830-20-35-1, an amount that will both offset the related transaction gain or loss arising from that remeasurement and adjust earnings for that period's allocable portion of the initial spot-forward difference associated with the hedging instrument (cost to the purchaser or income to the seller of the hedging instrument) shall be reclassified each period from other comprehensive income to earnings if the assessment of effectiveness and measurement of ineffectiveness are based on total changes in the non-option-based instrument's cash flows.
e. If an option contract is used as the hedging instrument in a cash flow hedge of the variability of the functional-currency-equivalent cash flows for a recognized foreign-currency-denominated asset or liability that is remeasured at spot exchange rates under paragraph 830-20-35-1 to provide only one-sided offset against the hedged **foreign exchange risk**, an amount shall be reclassified each period to or from other comprehensive income with respect to the changes in the **underlying** that result in a change in the hedging option's intrinsic value.
f. If the assessment of effectiveness and measurement of ineffectiveness are based on total changes in the option's cash flows (that is, the assessment will include the hedging instrument's entire change in **fair value**—its entire gain or loss), an amount that adjusts earnings for the amortization of the cost of the option on a rational basis shall be reclassified each period from other comprehensive income to earnings. This guidance is limited to foreign currency hedging relationships because of their unique attributes. That accounting guidance is an exception for foreign currency hedging relationships.

46. Amend paragraph 815-30-00-1 as follows:

815-30-00-1 ~~No updates have been made to this subtopic.~~The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
Credit Risk	Amended	2010-08	02/02/2010
Intrinsic Value	Added	2010-08	02/02/2010
Time Value	Added	2010-08	02/02/2010
815-30-35-3	Amended	2010-08	02/02/2010

Amendments to Subtopic 845-10

47. Amend paragraph 845-10-15-20, both current and both pending text, with no link to a transition paragraph, as follows:

Nonmonetary Transactions—Overall

Scope and Scope Exceptions

845-10-15-20 The guidance in these Subsections does not apply to the following types of transfers:

a. Transfers between a **joint venture** and its **owners**
b. Capital contributions of real estate in return for an unconsolidated real estate investment (for guidance, see Section 970-323)
c. Transfers of real estate in **exchange** for nonmonetary assets other than real estate (for guidance on the recognition of profit from the exchange, see Subtopic 976-605 and Section 360-20-40)
d. Subparagraph superseded by Accounting Standards Update 2010-08.~~Transfers of assets used in oil- and gas-producing activities (including either proved or unproved properties) in exchange for other assets also used in oil- and gas-producing activities (for guidance, see paragraph 932-360-40-7.~~

48. Amend paragraph 845-10-00-1, by adding the following item to the table, as follows:

845-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
Corporate Joint Venture	Amended	2010-08	02/02/2010
845-10-15-20	Amended	2010-08	02/02/2010

Amendments to Subtopic 852-740

49. Supersede paragraph 852-740-45-2, with a link to transition paragraph 852-740-65-1, as follows:

Reorganizations—Income Taxes

Other Presentation Matters

852-740-45-2 Paragraph superseded by Accounting Standards Update 2010-08.~~It is necessary to determine the timing of recognition of a tax benefit for pre-reorganization **deductible temporary differences** and net operating loss and tax credit carryforwards (for which a valuation allowance was provided at the date of reorganization) when post-reorganization net operating loss carryforwards exist. In determining whether a tax benefit recognized in later years is attributable to the pre- or post-reorganization amounts, the benefit shall be determined for financial reporting by provisions in the tax law that identify the sequence in which those amounts are utilized for tax purposes.~~

50. Add paragraph 852-740-65-1 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2010-08, *Technical Corrections to Various Topics*

852-740-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2010-08, *Technical Corrections to Various Topics*.

a. The pending content that links to this paragraph shall be applied to reorganizations for which the date of reorganization is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.
b. For those reorganizations reflected in interim financial statements issued before the pending content that links to this paragraph is effective, retrospective application shall be required. An entity shall not apply those provisions before that date.

51. Amend paragraph 852-740-00-1 as follows:

852-740-00-1 ~~No updates have been made to this subtopic.~~The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
852-740-45-2	Superseded	2010-08	02/02/2010
852-740-65-1	Added	2010-08	02/02/2010

Amendments to Subtopic 954-810

52. Amend paragraph 954-810-45-3B, with no link to a transition paragraph, as follows:

Health Care Entities—Consolidation

Other Presentation Matters

954-810-45-3B When consolidated financial statements are required or permitted by Section 958-810-25, a ~~minority~~noncontrolling interest shall be provided if such interest is represented by an economic interest whereby the ~~minority~~noncontrolling interest would share in the operating results or residual interest upon dissolution.

53. Amend paragraph 954-810-00-1, by adding the following item to the table, as follows:

954-810-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
954-810-45-3B	Amended	2010-08	02/02/2010

Amendments to Subtopic 970-323

54. Amend paragraph 970-323-25-11, with no link to a transition paragraph, as follows:

Real Estate—General—Investments—Equity Method and Joint Ventures

Recognition

970-323-25-11 ~~Minority~~Noncontrolling shareholders in such a real estate venture shall account for their investment using the principles applicable to investments in common stock set forth in Topic~~Topics~~ 320 or 323.

55. Amend paragraph 970-323-00-1, by adding the following items to the table, as follows:

970-323-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	**Action**	**Accounting Standards Update**	**Date**
Corporate Joint Venture	Amended	2010-08	02/02/2010
970-323-25-11	Amended	2010-08	02/02/2010

The amendments in this Update were adopted by the unanimous vote of the five members of the Financial Accounting Standards Board:

Robert H. Herz, *Chairman*
Thomas J. Linsmeier
Leslie F. Seidman
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

BC1. The following summarizes the Board's considerations in reaching the conclusions in this Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

Introduction

BC2. In May 2008, in response to constituent requests, the Board undertook a project to address certain differences in the amendments made to FASB Statements No. 141 (revised 2007), *Business Combinations,* and No. 160, *Noncontrolling Interests in Consolidated Financial Statements*. As part of the project, the Board decided to make various technical corrections to authoritative accounting guidance, which is done periodically. The FASB staff and various constituents had identified instances in which it was necessary to make additional amendments to certain accounting guidance.

BC3. In addition to making certain amendments to the Accounting Standards Codification, the Board decided to make certain changes to the legacy literature. While the legacy literature is no longer authoritative, the changes are being made to facilitate historical research and for inclusion in the final versions of the FASB's *Current Text* and *Original Pronouncements*, as of June 30, 2009. This Update includes a separate appendix that discusses the changes made to the legacy literature.

BC4. A technical correction generally is a nonsubstantive amendment to authoritative accounting guidance. It reflects the Board's intent on decisions that were previously subjected to its due process but were overlooked or not clearly stated when the accounting guidance was originally issued. In certain cases, a technical correction may change U.S. GAAP.

BC5. In November 1992, when the Board issued its first technical corrections standard (FASB Statement No. 111, *Rescission of FASB Statement No. 32 and Technical Corrections*), it considered which parts of previously issued accounting standards to amend and decided that only the official guidance sections should be amended. When redeliberating the proposed FASB Statement, *Rescission of FASB Technical Bulletin No. 01-1, Nullification of EITF Topics No. D-33 and No. D-67, Amendments, and Technical Corrections* (the Exposure Draft of this Update), the Board concluded that only those sections that have been included in the Accounting Standards Codification should be amended.

BC6. The Board issued the Exposure Draft for comment on March 16, 2009, and received three comment letters. All respondents supported the objective of that Exposure Draft to (a) address certain inconsistencies in existing accounting guidance, (b) provide certain clarifications to reflect the Board's intent in previously issued guidance, (c) eliminate certain outdated guidance, and (d) make technical corrections considered to be nonsubstantive in nature. All respondents agreed with the majority of the Board's conclusions. During redeliberations, additional amendments and technical corrections suggested by various respondents to the Exposure Draft were received for consideration by the Board. The Board decided to include some minor changes primarily related to the technical corrections that were in the Exposure Draft. However, rather than delay the issuance of this Update, the Board decided to defer the respondents' suggestions for additional corrections not exposed for comment that were more substantive in nature to a later technical corrections project or to consider them for inclusion in an existing project, if appropriate.

Amendments to Intangibles—Goodwill and Other (Topic 350)

BC7. The Board concluded that paragraphs 350-30-25-1 through 25-2 and 350-30-30-1 through 30-2 should be amended to eliminate the inconsistency between the accounting for intangible assets acquired individually or with a group of assets outside a business combination and the guidance for asset acquisitions included in Subtopic 805-50 related to the accounting for assets acquired and liabilities assumed outside a business combination. The amendments included in paragraphs 350-30-25-1 through 25-2 and 350-30-30-1 through 30-2 conform the guidance with that of paragraphs 805-50-05-3, 805-50-25-1, 805-50-30-1 through 30-3, and 805-50-35-1.

Amendments to Business Combinations (Topic 805)

BC8. Paragraphs 805-50-30-1 through 30-3 provide guidance for measuring assets acquired outside a business combination. When Statement 141(R) was issued, the Board concluded that the accounting for asset acquisitions would remain unchanged. Paragraph 805-50-30-1 provides guidance for the initial measurement of assets acquired outside a business combination and requires that they are recognized based on cost including transaction costs associated with the asset acquisition. Paragraph 805-50-30-3 provides guidance on the accounting for assets acquired in groups (basket purchases) outside a business combination and requires that the cost for each individual asset be determined based on an allocation of the cost of the group of assets using the relative fair values of the assets. For purposes of allocating the cost of the group of assets acquired or liabilities assumed to the individual asset or liability, fair value is measured based on the guidance in Topic 820 (Fair Value Measurements and

Disclosures). A simplified example of the fair value allocation method is added in paragraph 805-50-55-1 to illustrate how the cost of a group of assets acquired outside a business combination is allocated to the individual assets or liabilities in the group. In this example, the percentage of the fair value of an individual asset to the total fair value is used to allocate the cost (including transaction costs) to the individual assets acquired. The allocated amount is the initial carrying amount for each asset.

Amendments to Derivatives and Hedging (Topic 815)

BC9. To eliminate diversity in practice due to differing interpretations of the term *each* included as the second word in paragraph 815-15-25-26(b)(2), the Board concluded that the term *each* should be replaced with *any*. The term *each* has the potential to be interpreted to mean all possible interest rate scenarios discussed under paragraph 815-15-25-26(b)(1), in which case paragraph 815-15-25-26(b) would rarely result in the embedded derivative instrument being considered as not clearly and closely related to the host contract. Alternatively, it could be interpreted to mean any one or more of the possible interest rate scenarios discussed under paragraph 815-15-25-26(b)(1), which was the intended meaning.

BC10. Some respondents suggested that the term *only* should be inserted into the first sentence of paragraph 815-15-25-26. The Board decided to make that change because the comments received on the Exposure Draft and on the proposed FASB Statement, *Accounting for Hedging Activities*, issued in June 2008, indicate that clarification is needed to avoid misapplication of the provisions of paragraph 815-15-25-26 to embedded derivatives that do not have only a single underlying.

BC11. To avoid a possible misunderstanding of the credit sector spreads included in the notion of credit risk under Topic 815, the Board concluded that paragraph 815-20-25-15(j)(4)(iii) should include the phrase *related financial asset's or liability's* instead of *hedged item's credit sector*. This amendment also is included in the definition of *credit risk* in the Master Glossary of the Accounting Standards Codification.

BC12. Some respondents suggested amending paragraph 815-20-25-12(f)(4) to include a similar amendment to that in paragraph 815-20-25-15(j)(4) because it makes the same reference to credit sector spreads for fair value hedges. The Board concluded that no such change was necessary because paragraph 815-20-25-15(j)(4) addresses the hedged forecasted transaction (such as an interest payment) and should not use the phrase *hedged item*. That phrase is appropriate only for fair value hedges, and because paragraph 815-20-25-12(f)(4) addresses hedged items, it is not necessary to make a similar amendment to that paragraph.

BC13. The Board concluded that paragraph 815-30-35-3 should be amended to avoid a possible misinterpretation of the guidance in paragraph 815-30-35-3(b)(1) through (b)(2). That amendment resolves an inconsistency with the guidance in the first sentence of paragraph 815-30-35-3, which states that the effective portion of the cash flow hedge is reported in other comprehensive income and that the ineffective portion of the hedge is reported in earnings. The amendment also clarifies the guidance on the earnings adjustment for the hedging instrument's initial spot-forward difference.

BC14. The Board concluded that paragraph 815-15-25-40 should be amended to eliminate an inconsistency in the decision sequence between that paragraph and Step 3 of paragraph 815-15-25-42 when determining whether a call or put option is clearly and closely related to the debt host contract. Paragraph 815-15-25-42 notes that if the debt host does not involve a substantial premium or discount, further analysis under paragraph 815-15-25-26 is required. Paragraph 815-15-25-42 is amended to require such further analysis only if the instrument is not contingently exercisable—that is, if it does not have a dual underlying, in which case paragraph 815-15-25-26 does not apply.

Nullification of Topic D-33

BC15. The Board concluded that EITF Topic No. D-33, "Timing of Recognition of Tax Benefits for Pre-reorganization Temporary Differences and Carryforwards," should be nullified because Statement 141(R) modifies the guidance in AICPA Statement of Position 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code,* and FASB Statement No. 109, *Accounting for Income Taxes,* to no longer require tax benefits acquired in a business combination to be separately classified between pre- and post-reorganization amounts. Topic D-33 refers to the guidance for subsequent recognition of carryforward benefits under the purchase method in paragraph 268 of Statement 109, which was nullified by Statement 141(R). The effective date related to the nullification of EITF Topic D-33 should be applied to reorganizations for which the date of reorganization is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. For those reorganizations reflected in interim financial statements issued before the issuance of this Update, retrospective application is required. An entity should not apply those provisions before that date.

Items in the Exposure Draft That Were Excluded from This Update

BC16. The proposed amendment to FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, is being amended in the FASB legacy literature only and not in the Accounting Standards Codification. Paragraph A30 of

Interpretation 48 provided guidance related to initial adoption of that Interpretation. Paragraph 740-10-55-116 of the Accounting Standards Codification was amended during authoring to provide ongoing application and, therefore, does not need revision.

BC17. The proposed amendment to AICPA Practice Bulletin No. 11, *Accounting for Preconfirmation Contingencies in Fresh-Start Reporting,* has been removed because that Practice Bulletin was nullified by paragraph F5 of Statement 141(R).

BC18. The proposed amendments to the FASB Special Report, *A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities,* have been eliminated because paragraph 40 of FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments,* reinstated the requirement to disclose amortized cost basis by major security type. That FSP was issued on April 9, 2009.

Effective Date and Transition

BC19. The amendments to make technical corrections to accounting guidance included in the Accounting Standards Codification, as well as to the legacy literature, represent items that the Board intended to include within accounting guidance that is already in effect. The amendments are effective upon the issuance of this Update except for certain amendments to FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (now Topic 815), and the nullification of EITF Topic D-33.

Benefits and Costs

BC20. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC21. The Board's mission statement affirms that the Board determines whether amendments in an Update will fill a significant need and whether the costs they impose will be justified in relation to its overall benefits. The Board concluded that the benefits of consistent application outweigh any effort required on the part of preparers. The Board concluded that the amendments in this Update both simplify and improve financial reporting by removing obsolete guidance, eliminating inconsistencies, and providing certain clarifications to reflect the Board's intent in previously issued guidance.

BC22. The Board does not expect that the amendments in this Update will result in significant changes in practice; therefore, the Board concluded that the cost of implementing the amendments will not be significant.

Amendments to the XBRL Taxonomy

There are no proposed amendments to the XBRL taxonomy as a result of the amendments in this Update.

Appendix: Amendments to the Legacy Literature

A1. Since the launch of the Accounting Standards Codification on July 1, 2009, the Board no longer issues new guidance in the form of standards. Instead, it issues Accounting Standards Updates. The objective of including this appendix is to provide a means for communicating all the changes that are made to the FASB legacy literature for the primary purpose of including those changes in the final version of the 2009 *FASB Original Pronouncements*. Some of the technical corrections included below pertain to FASB legacy literature only and are not included in the Accounting Standards Codification. This is because some of the changes affect amendments to amending paragraphs, or because inclusion in the Accounting Standards Codification was not necessary due to the guidance being either redundant or outdated with other guidance in U.S. GAAP. Added text is underlined and deleted text is ~~struck out~~.

Rescission of Technical Bulletin 01-1

A2. FASB Technical Bulletin No. 01-1, *Effective Date for Certain Financial Institutions of Certain Provisions of Statement 140 Related to the Isolation of Transferred Financial Assets,* addresses certain issues that arose in transitioning from the previous isolation standards and practices under FASB Statement No. 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,* to the new practices under FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. The additional transition period ended on June 30, 2006; therefore, the guidance in Technical Bulletin 01-1 is no longer relevant. All provisions of Technical Bulletin 01-1 are rescinded except for the definition of the phrase *equitable right of redemption* in footnote 1, which is included in the Master Glossary of the Accounting Standards Codification.

Nullification of Topic D-33

A3. EITF Topic D-33 has been nullified because Statement 141(R) modifies the guidance in SOP 90-7 and Statement 109 to no longer require tax benefits acquired in a business combination to be separately classified between pre- and post-reorganization amounts. EITF Topic D-33 refers to the guidance for subsequent recognition of carryforward benefits under the purchase method in paragraph 268 of Statement 109, which was deleted by Statement 141(R). The effective date related to the nullification of EITF Topic D-33 should be applied to reorganizations for which the date of reorganization is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. For those reorganizations reflected in interim financial statements issued before the issuance of this Update, retrospective application is required. An entity should not apply those provisions before that date.

Nullification of Topic D-67

A4. EITF Topic No. D-67, "Isolation of Assets Transferred by Financial Institutions under FASB Statement No. 125," has been nullified because it is redundant with guidance included in Statement 140 and refers to Technical Bulletin 01-1, which has been rescinded.

Amendments and Technical Corrections

A5. APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock,* is amended as follows:

a. Paragraph 3(c), to reflect the revised definition of the term *subsidiary* included in paragraph B1 of Statement160.

> "Subsidiary" refers to <u>an entity, including an unincorporated entity such as a partnership or trust, in which another entity, known as its parent, holds a controlling financial interest (also, a variable interest entity that is consolidated by a primary beneficiary).</u>~~a corporation which is controlled, directly or indirectly, by another corporation. The usual condition for control is ownership of a majority (over 50%) of the outstanding voting stock. The power to control may also exist with a lesser percentage of ownership, for example, by contract, lease, agreement with other stockholders or by court decree.~~

A6. FASB Statement No. 95, *Statement of Cash Flows,* is amended as follows:

a. Paragraph 28, as amended, to remove the reference to amortization of goodwill. FASB Statement No. 142, *Goodwill and Other Intangible Assets,* modified the accounting for goodwill from an amortization model to an impairment model. In addition, some minor wording changes are made for clarification purposes.

> Enterprises that choose not to provide information about major classes of operating cash receipts and payments by the direct method as encouraged in paragraph 27 shall determine and report the same amount for net cash flow from operating activities indirectly by adjusting net income of a business enterprise or change in net assets of a not-for-profit organization to reconcile it to

net cash flow from operating activities (the indirect or reconciliation method). That requires adjusting net income of a business enterprise or change in net assets of a not-for-profit organization to remove (a) the effects of all deferrals of past operating cash receipts and payments, such as changes during the period in inventory, deferred income, and the like, and all accruals of expected future operating cash receipts and payments, such as changes during the period in receivables and payables,[12] and (b) ~~the effects of~~ all items that are included in net income that do not affect net cash provided from, or used for, operating activities such as depreciation of property, plant, and equipment and amortization of finite-life intangible assets. This includes all items whose cash effects are related to investing or financing cash flows, such as ~~depreciation, amortization of goodwill, and~~ gains or losses on sales of property, plant, and equipment and discontinued operations (which relate to investing activities), and gains or losses on extinguishment of debt (which relate to ~~is a~~ financing ~~activity~~activities).

A7. Statement 133 is amended as follows:

a. Paragraph 13, as amended, to clarify the Board's intent that the paragraph applies solely to those special cases in which an interest rate or interest rate index is the only underlying. Because derivative instruments may have more than one underlying, the term *only* is added to avoid inappropriately applying the special bifurcation criteria in paragraph 13. Paragraph 13(b)(2) is amended to eliminate diversity in practice due to different interpretations of the term *each* included as the second word in the paragraph. The term has the potential to be interpreted to mean all possible interest rate scenarios discussed under paragraph 13(b)(1), in which case paragraph 13(b) would rarely result in the embedded derivative instrument being considered as not clearly and closely related to the host contract. Alternatively, it could be interpreted to mean any one or more of the possible interest rate scenarios discussed under paragraph 13(b)(1), which was the intended meaning.

For purposes of applying the provisions of paragraph 12, an embedded derivative instrument in which the only underlying is an interest rate or interest rate index[6] that alters net interest payments that otherwise would be paid or received on an interest-bearing host contract is considered to be clearly and closely related to the host contract unless either of the following conditions exist:

a. The hybrid instrument can contractually be settled in ~~a~~ such a way that the investor (holder) would not recover *substantially all* of its initial recorded investment.[6a]

b. The embedded derivative meets both of the following conditions:

   (1) There is a possible future interest rate scenario (even though it may be remote) under which the embedded derivative would at least double the investor's initial rate of return on the host contract.

   (2) For <u>any</u>~~each~~ of the possible interest rate scenarios under which the investor's initial rate of return on the host contract would be doubled (as discussed under paragraph 13(b)(1)), the embedded derivative would at the same time result in a rate of return that is at least twice what otherwise would be the then-current market return (under <u>the relevant</u>~~each of those~~ future interest rate ~~scenarios~~<u>scenario</u>) for a contract that has the same terms as the host contract and that involves a debtor with a credit quality similar to the issuer's credit quality at inception.

Even though the above conditions focus on the investor's rate of return and the investor's recovery of its investment, the existence of either of those conditions would result in the embedded derivative instrument not being considered clearly and closely related to the host contract by both parties to the hybrid instrument. Because the existence of those conditions is assessed at the date that the hybrid instrument is acquired (or incurred) by the reporting entity, the acquirer of a hybrid instrument in the secondary market could potentially reach a different conclusion than could the issuer of the hybrid instrument due to applying the conditions in this paragraph at different points in time.

b. Paragraph 29(h)(4), as amended, to avoid a possible misunderstanding about the credit sector spreads that are included in the notion of credit risk.

   The risk of changes in its cash flows attributable to default, changes in the obligor's creditworthiness, and changes in the spread over the benchmark interest rate with respect to the <u>related financial asset's or liability's</u>~~hedged item's~~ credit sector at inception of the hedge (referred to as credit risk).

c. Paragraph 30, as amended, to avoid a possible misinterpretation of the guidance in paragraphs 30(b)(1) and 30(b)(2) that would make it inconsistent with the guidance in the first sentence of paragraph 30, which explicitly states that the effective portion of the cash flow hedge is reported in other comprehensive income and the ineffective portion of the hedge is reported in earnings. The amendment also clarifies the guidance on the earnings adjustment for the hedging instrument's initial spot-forward difference.

> The effective portion of the gain or loss on a derivative designated as a cash flow hedge is reported in other comprehensive income, and the ineffective portion is reported in earnings. More specifically, a qualifying cash flow hedge shall be accounted for as follows:
>
> a. If an entity's defined risk management strategy for a particular hedging relationship excludes a specific component of the gain or loss, or related cash flows, on the hedging derivative from the assessment of hedge effectiveness (as discussed in paragraph 63 in Section 2 of Appendix A), that excluded component of the gain or loss shall be recognized currently in earnings. For example, if the effectiveness of a hedge with an option contract is assessed based on changes in the option's intrinsic value, the changes in the option's time value would be recognized in earnings. Time value is equal to the fair value of the option less its intrinsic value.
>
> b. Accumulated other comprehensive income associated with the hedged transaction shall be adjusted to a balance that reflects the *lesser* of the following (in absolute amounts):
>   (1) The cumulative gain or loss on the derivative from inception of the hedge less (a) the excluded component discussed in paragraph 30(a) above and (b) the derivative's gains or losses previously reclassified from accumulated other comprehensive income into earnings pursuant to paragraph 31.
>   (2) The portion of the cumulative gain or loss on the derivative necessary to offset the cumulative change in expected future cash flows on the hedged transaction from inception of the hedge less the derivative's gains or losses previously reclassified from accumulated other comprehensive income into earnings pursuant to paragraph 31.
>
>   That adjustment of accumulated other comprehensive income shall incorporate recognition in other comprehensive income of part or all of the gain or loss on the hedging derivative, as necessary. <u>If hedge accounting has not been applied to a cash flow hedging relationship in a previous effectiveness assessment period because the entity's retrospective</u>

evaluation indicated that the relationship had not been highly effective in achieving offsetting changes in cash flows in that period, the *cumulative gain or loss on the derivative* referenced in this subparagraph would exclude the gains or losses occurring during that period. Similarly, the *cumulative change in expected future cash flows on the hedged transaction* would exclude the changes related to that period when hedge accounting has not been applied. That situation may arise if the entity had previously determined, for example, under a regression analysis or other appropriate statistical analysis approach used for prospective assessments of hedge effectiveness, that there was an expectation in which the hedging relationship was highly effective in future periods. Consequently, the hedging relationship continued even though hedge accounting was not permitted for a specific previous effectiveness assessment period.

c. A gain or loss shall be recognized in earnings, as necessary, for any remaining gain or loss on the hedging derivative or to adjust other comprehensive income to the balance specified in paragraph 30(b) above.

d. If a non-option-based contract is the hedging instrument in a cash flow hedge of the variability of the functional-currency-equivalent cash flows for a recognized foreign-currency-denominated asset or liability that is remeasured at spot exchange rates under paragraph 15 of Statement 52, an amount that will both offset the related transaction gain or loss arising from that remeasurement and adjust earnings for that period's allocable portion of the initial spot-forward difference associated with the hedging instrument (cost to the purchaser or income to the seller of the hedging instrument) shall be reclassified each period from other comprehensive income to earnings if the assessment of effectiveness and measurement of ineffectiveness are based on total changes in the non-option-based instrument's cash flows. If an option contract is used as the hedging instrument in a cash flow hedge of the variability of the functional-currency-equivalent cash flows for a recognized foreign-currency-denominated asset or liability that is remeasured at spot exchange rates under paragraph 15 of Statement 52 to provide only one-sided offset against the hedged foreign exchange risk, an amount shall be reclassified each period to or from other comprehensive income with respect to the changes in the underlying that result in a change in the hedging option's intrinsic value. In addition, if the assessment of effectiveness and measurement of ineffectiveness are also based on total changes in the option's cash flows (that is, the assessment will include the hedging instrument’s entire change in fair value—its entire gain or loss), an amount that adjusts earnings for the amortization of the cost of the option on a rational basis shall be reclassified each period from other comprehensive income to earnings.[10a]

Section 2 of Appendix A illustrates assessing hedge effectiveness and measuring hedge ineffectiveness. Examples 6 and 9 of Section 1 of Appendix B illustrate the application of this paragraph.

d. Paragraph 61(d), as amended, to eliminate an inconsistency in the decision sequence between this paragraph and Step 3 of Statement 133 Implementation Issue No. B16, “Calls and Puts in Debt Instruments,” when determining whether a call or put is clearly and closely related to the debt host contract. Step 3 of Implementation Issue B16 notes that if paragraph 13 of Statement 133 is applicable, further analysis under paragraph 13 is required. The portion of paragraph 61(d) that omits the requirement to perform further analysis of the contract under paragraph 13 to determine whether the call or put is clearly and closely related to the debt host contract is deleted. Additionally, the phrase *provided the call options (or put options) also are considered to be clearly and closely related to the debt host contract under paragraph 13* is moved from the end of the first sentence of paragraph 61(d) to the beginning of that same sentence, as is now reflected in paragraph 815-15-25-40 of the Accounting Standards Codification.

Calls and puts on debt instruments. Provided the call options (or put options) also are considered to be clearly and closely related to the debt host contract under paragraph 13,~~Call~~call options (or put options) that can accelerate the repayment of principal on a debt instrument are considered to be clearly and closely related to a debt instrument that requires principal repayments unless both (1) the debt involves a substantial premium or discount (which is common with zero-coupon bonds) and (2) the put or call option is only contingently exercisable.~~, provided the call options (or put options) are also considered to be clearly and closely related to the debt host contract under paragraph 13. Thus, if a substantial premium or discount is not involved, embedded calls and puts (including contingent call or put options that are not exercisable unless an event of default occurs) would *not* be separated from the host contract. However, for~~ For contingently exercisable call~~calls~~ and put~~puts~~ options to be considered clearly and closely related, they can be indexed only to interest rates or credit risk, not some extraneous event or factor. In contrast, call options (or put options) that do not accelerate the repayment of principal on a debt instrument but instead require a cash settlement that is equal to the price of the option at the date of exercise would *not* be considered to be clearly and closely related to the debt instrument in which it is embedded.

e. Paragraph 195, to clarify and to reflect the guidance included in Statement 133 Implementation Issue No. B33, "Applicability of Paragraph 15 to Embedded Foreign Currency Options," which addresses the application of paragraph 15 to certain foreign currency options (caps and floors) embedded in a foreign-currency-denominated forward contract.

Example 29: Short-Term Loan with a Foreign Currency Option. A U.S. lender issues a loan at an above-market interest rate. The loan is made in U.S. dollars, the borrower's functional currency, and the borrower has the option to repay the loan in U.S. dollars or in a fixed amount of a specified foreign currency.

Scope Application: This instrument can be viewed as combining a loan at prevailing market interest rates and a foreign currency option. The lender has written a foreign currency option exposing it to changes in foreign currency exchange rates during the outstanding period of the loan. The premium for the option has been paid as part of the interest rate. Because the borrower has the option to repay the loan in U.S. dollars or in a fixed amount of a specified foreign currency, the provisions of paragraph 15 are not relevant to this example. Paragraph 15 addresses foreign-currency-denominated interest or principal payments but does not apply to foreign currency options<u> embedded in a functional-currency-denominated debt host contract</u>. Because a foreign currency option is not clearly and closely related to issuing a loan, the embedded option should be separated from the host contract and accounted for by both parties pursuant to the provisions of this Statement. In contrast, if both the principal payment and the interest payments on the loan had been payable only in a fixed amount of a specified foreign currency, there would be no embedded foreign currency derivative pursuant to this Statement.

f. Paragraph 197, as amended, to reflect the two additional criteria in paragraph 15 of Statement 133, as amended. This amendment is consistent with the wording included in paragraph 10(b) of Statement 133.

Example 31: Certain Purchases in a Foreign Currency. A U.S. company enters into a contract to purchase corn from a local American supplier in six months for a fixed amount of Japanese yen; the yen is the functional currency of neither party to the transaction. The corn is expected to be delivered and used over a reasonable period in the normal course of business.

Scope Application: Paragraph 10(b) excludes contracts that require future delivery of commodities that are readily convertible to cash from the accounting for derivatives if the commodities will be delivered in quantities expected to be used or sold by the reporting entity over a reasonable period in the normal course of business. However, that paragraph also states that contracts that are denominated in a foreign currency that meets ~~neither~~none of the criteria in paragraphs 15(a)–15(d) ~~and 15(b)~~ shall not be considered normal purchases and normal sales. Because the Japanese yen is not the functional currency of either party to the contract and the purchase of corn is transacted internationally in many different currencies, the contract does not qualify for the normal purchases and normal sales exception. The contract is a compound derivative comprising a U.S. dollar-denominated forward contract for the purchase of corn and an embedded foreign currency swap from the purchaser's functional currency (the U.S. dollar) to yen. Consistent with the last sentence of footnote 13 to paragraph 49, the compound derivative cannot be separated into its components (representing the foreign currency derivative and the forward commodity contract) and accounted for separately under this Statement.

A8. Implementation Issue B16 is amended as follows:

a. Step 3 of the four-step decision sequence for determining whether calls and puts that can accelerate the settlement of debt instruments should be considered to be clearly and closely related to the debt host contract.

Does the debt involve a substantial premium or discount? If yes, continue to Step 4. If no, in accordance with paragraph 61(d), further analysis of the contract under paragraph 13 is required to determine whether the call or put is clearly and closely related to the debt host contract if paragraph 13 is applicable.

b. The table included as an attachment:

Example	Indexed Payoff? (Steps 1 and 2)	Substantial Discount or Premium? (Step 3)	Contingently Exercisable? (Step 4)	Embedded Option Clearly and Closely Related?
1. Debt that is issued at a substantial discount is callable at any time during its 10-year term. If the debt is called, the investor receives the par value of the debt plus any unpaid and accrued interest.	No.	Yes.	No.	The embedded call option is clearly and closely related to the debt host contract because the payoff is not indexed ~~to an underlying other than interest rates or credit risk,~~ and the call option is not contingently exercisable.
2. Debt that is issued at par is callable at any time during its term. If the debt is called, the investor receives the greater of the par value of the debt or the market value of 100,000 shares of XYZ common stock (an unrelated company).	Yes, based on an equity price.	N/A. Analysis not required.	N/A. Analysis not required.	The embedded call option is not clearly and closely related to the debt host contract because the payoff is indexed to an equity price.
3. Debt that is issued at par is puttable if the S&P 500 increases by at least 20 percent. If the debt is put, the investor receives the par amount of the debt adjusted for the percentage increase in the S&P 500.	Yes, based on an equity index (S&P 500).	N/A. Analysis not required.	N/A. Analysis not required.	The embedded put option is not clearly and closely related to the debt host contract because the payoff is indexed to an equity price.
4. Debt that is issued at a substantial discount is puttable at par if LIBOR either increases or decreases by 150 basis points.	No.	Yes.	Yes, contingent on a movement of LIBOR of at least 150 basis points.	The put option is not clearly and closely related to the debt host contract because the debt was issued at a substantial discount and the put option is contingently exercisable.
5. Debt that is issued at a substantial discount is puttable at par in the event of a change in control.	No.	Yes.	Yes, contingent on a change in control.	The put option is not clearly and closely related to the debt host contract because the debt was issued at a substantial discount and the put option is contingently exercisable.

Example	Indexed Payoff? (Steps 1 and 2)	Substantial Discount or Premium? (Step 3)	Contingently Exercisable? (Step 4)	Embedded Option Clearly and Closely Related?
6. Zero coupon debt is issued at a substantial discount and is callable in the event of a change in control. If the debt is called, the issuer pays the accreted value (calculated per amortization table based on the effective interest rate method).	No.	Yes.	Yes, contingent on a change in control, but since the debt is callable at accreted value, the call option does not accelerate the repayment of principal.	The call option is clearly and closely related to the debt host contract. Although the debt was issued at a substantial discount and the call option is contingently exercisable, the call option does not accelerate the repayment of principal because the debt is callable at the accreted value.
7. Debt that is issued at par is puttable at par in the event that the issuer has an initial public offering.	No.	No.	N/A. Analysis not required.	~~Further analysis under paragraph 13 is required.~~The embedded put option is clearly and closely related to the debt host contract because the debt was issued at par (not at a substantial discount) and is puttable at par. Paragraph 13(b)(2) does not apply.
8. Debt that is issued at par is puttable if the price of the common stock of Company XYZ (a company unrelated to the issuer or investor) changes by 20 percent. If the debt is put, the investor will be repaid based on the value of Company XYZ’s common stock.	Yes, based on an equity price (price of Company XYZ’s common stock).	N/A. Analysis not required.	N/A. Analysis not required.	The embedded put option is not clearly and closely related to the debt host contract because the payoff is indexed to an equity price.
9. Debt is issued at a slight discount and is puttable if interest rates move 200 basis points. If the debt is put, the investor will be repaid based on the S&P 500.	Yes, based on an equity index (S&P 500).	N/A. Analysis not required.	N/A. Analysis not required.	The embedded put option is not clearly and closely related to the debt host contract because the payoff is based on an equity index.

A9. Statement 141(R) is amended as follows:

a. Paragraph 44, to clarify the Board's intent that the accounting discussed in this paragraph is limited solely to a situation in which the acquiree awards expire as a consequence of the business combination and in which the acquirer has no obligation to replace the awards. In this limited situation, the acquiree awards have no value. The acquirer awards represent postcombination compensation expense because all of the fair-value-based measure of the *replacement* award is in excess of the value of the acquiree award (which is zero). Any other share-based-payment award that remains outstanding after the acquisition date would be subject to existing noncontrolling interest and share-based-payment guidance. The revised wording limits the scope for accounting for a share-based-payment award as a postcombination compensation expense. The IASB has included a minor revision to paragraph B56 of IFRS 3, *Business Combinations*, in its August 2009 Exposure Draft, *Improvements to IFRSs,* to include a reference to paragraphs B57–B62 of IFRS 3. The Board will consider amending paragraph 805-30-30-10 further when the IASB issues its Exposure Draft as final guidance.

> In ~~some~~ situations~~,~~ in which acquiree awards ~~may~~would expire as a consequence of a business combination~~.~~ and~~If~~ the acquirer replaces those awards even though it is not obligated to do so, all of the fair-value-based measure of the replacement awards shall be recognized as compensation cost in the postcombination financial statements. That is, none of the fair-value-based measure of those awards shall be included in measuring the consideration transferred in the business combination.

b. The fifth sentence of paragraph A126, to eliminate a typographical error.

> That is because Entity B~~Entity A~~ is the accounting acquirer, and paragraphs 39 and 40 require the acquirer to measure the consideration exchanged for the accounting acquiree.

c. Paragraph D4, to reflect the measurement guidance for exchanges of nonmonetary assets under APB Opinion No. 29, *Accounting for Nonmonetary Transactions*. This amendment should have been made when FASB Statement No. 153, *Exchanges of Nonmonetary Assets,* was issued.

> *Initial measurement.* Assets are recognized based on their *cost* to the acquiring entity, which generally includes the transaction costs of the asset acquisition, and no gain or loss is recognized unless

the fair value of noncash assets given as consideration differs from the assets' carrying amounts on the acquiring entity's books. For transactions involving nonmonetary consideration within the scope of APB Opinion No. 29, *Accounting for Nonmonetary Transactions,* an acquirer must first determine if any of the conditions in paragraph 20 of Opinion 29 apply. (FAS 141, ¶5)

d. Paragraph D5, to clarify how cost is measured and to eliminate the inconsistency between that paragraph and the wording in footnote 6 to paragraph 9 of Statement 142 for assets acquired in exchange transactions. Paragraph D1 states that the appendix provides continuing authoritative guidance for asset acquisitions and that the guidance has been quoted, paraphrased, or modified as necessary so that it can be understood in the context of the Statement. That is, Statement 141(R) did not intend to change the guidance for accounting for asset acquisitions. Asset acquisitions are initially measured based on their cost to the acquiring entity and generally include transaction costs of the asset acquisition. The text included in paragraphs D2–D7 originated from APB Opinion No. 16, *Business Combinations,* and was carried forward to FASB Statement No. 141, *Business Combinations*. In Statement 141(R), some of the changes to the wording may have the potential to change the accounting; therefore, revisions are being made to clarify the accounting and reflect what was initially intended.

Asset acquisitions in which the consideration given is cash are measured by the amount of cash paid, which generally includes the transaction costs of the asset acquisition. However, if the consideration given is not in the form of cash (that is, in the form of noncash assets, liabilities incurred, or equity interests issued), measurement is based on either the cost, which shall be measured based on the fair value of the consideration given~~to the acquiring entity~~ or the fair value of the assets (or net assets) acquired, whichever is more clearly evident and, thus, more reliably measurable. For transactions involving nonmonetary consideration within the scope of Opinion 29, an acquirer must first determine if any of the conditions in paragraph 20 of Opinion 29 apply. (FAS 141, ¶6)

e. Paragraph D6, to incorporate the guidance for acquired intangible assets that the entity does not intend to use and to eliminate minor inconsistencies with similar wording included in paragraph 9 of Statement 142.

Allocating cost. Acquiring assets in groups requires not only ascertaining the cost of the asset (or net asset) group but also allocating that cost to the individual assets (or individual assets and liabilities) that make up the group. The cost of such a group is determined using the concepts described in paragraphs D4 and D5. The cost of a group of assets acquired in an asset acquisition shall be~~is~~ allocated to the individual assets acquired or liabilities assumed based on their relative fair values and shall~~does~~ not give rise to goodwill. The allocated cost of an asset that the entity does not intend to use or intends to use in a way that is not its highest and best use, such as a brand name, shall be determined based on its relative fair value. (FAS 141, ¶7; FAS 142, ¶9)

f. Paragraph E7, to eliminate an incorrect amendment paragraph. Paragraph E7 of Statement 141(R) and paragraph C3 of Statement 160 amended paragraph 19(m) of Opinion 18 differently. See paragraph A11(a) below for the amendments made to paragraph C3 of Statement 160. **[Note: The correct amendment to paragraph 19(m) is reflected in the 2008 *Original Pronouncements*.]**

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

~~a. Paragraph 19(m), as amended:~~

~~An investment in common stock of an investee that was previously accounted for on other than the equity method may become qualified for use of the equity method by an increase in the level of ownership described in paragraph 17 (i.e., acquisition of additional voting stock by the investor, acquisition or retirement of voting stock by the investee, or other transactions). When an investment qualifies for use of the equity method, the investor should adopt the equity method of accounting. The investment, results of operations (current and prior periods presented), and retained earnings of the investor should be adjusted retroactively as if the equity method had been in effect during all previous periods in which the investment was held in a manner consistent with the accounting for a step-by-step acquisition of a subsidiary.[11a] If that retroactive adjustment is made on or after the date Statement 142 is initially applied in its entirety, the goodwill related to that investment (including goodwill related to step purchases made prior to the initial application of Statement 142) shall not be amortized in determining the amount of the adjustment.~~

~~[11A]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.~~

g. Paragraph E27(b), to eliminate an incorrect amendment paragraph. Paragraph E27(b) of Statement 141(R) and paragraph C10(a) of Statement 160 amended paragraph 6 and its related footnote 5 of Statement 142 differently. **[Note: The correct amendment to paragraph 6 and its related footnote 5 is included in paragraph C10(a) of Statement 160 and is reflected in the 2008 *Original Pronouncements*.]**

~~Paragraph 6 and its related footnote 5:~~

~~This Statement applies to goodwill and other intangible assets recognized on the acquisition of some or all of the noncontrolling interests in a subsidiary—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]Statement 141 requires that the acquisition of some or all of the noncontrolling interests in a subsidiary be accounted for using the purchase method.~~

A10. Statement 142 is amended as follows:

a. Footnote 3 of paragraph 4, as amended, to correct the amendment made to this footnote included in the 2008 *Original Pronouncements*. **[Note: This amendment was not part of Statement 141(R) or Statement 160; it was only included in the published version of the 2008 *Original Pronouncements*.]**

Statement 141(R) and Statement 164 address the initial recognition and measurement of intangible assets acquired in a business combination or in an acquisition of a business or nonprofit activity by a not-for-profit entity. Statement 164 also addresses the initial measurement of intangible assets by the new entity resulting from the merger of two or more not-for-profit entities.~~requires that the acquisition of some or all of the noncontrolling interests in a subsidiary be accounted for using the acquisition method.~~

b. Paragraph 9, as amended, to eliminate the inconsistency between the accounting for intangible assets acquired individually or with a group of assets outside a business combination and the guidance included in Appendix D of Statement 141(R) for asset acquisitions. Paragraph 9 states that intangible assets acquired are recognized and measured based on fair value, and Statement 141(R) states that asset acquisitions should be recognized at cost. Paragraphs D2–D7 of Statement 141(R) provide guidance on interpreting cost.

An intangible asset that is acquired either individually or with a group of other assets (but not those acquired in a business combination) shall be initially recognized and measured based on the guidance included in paragraphs D2–D7 of Statement 141(R).~~its fair value. The fair value of an intangible asset shall be determined based on the assumptions that market participants would use in pricing the asset. An asset that the entity does not intend to use or intends to use in a way that is not its highest and best use, such as a brand name or a research and development asset, shall nevertheless be measured at its fair value. General concepts related to the initial measurement of assets acquired in exchange transactions, including intangible assets, are provided in paragraphs D2–D7 of Statement 141(R).~~[6] As indicated in paragraph D6 of Statement 141(R), the ~~The~~ cost of a group of assets acquired in a transaction other than a business combination shall be allocated to the individual assets acquired based on their relative fair values and shall not give rise to goodwill.[7] Intangible assets acquired in a business combination are initially recognized and measured in accordance with Statement 141(R).

[6]~~Although those paragraphs refer to determining the cost of the assets acquired, paragraph 18 of APB Opinion No. 29, *Accounting for Nonmonetary Transactions,* notes that, in general, cost should be measured based on the fair value of the consideration given or the fair value of the net assets acquired, whichever is more reliably measurable.~~

[7]Statement 141(R) requires intangible assets acquired in a business combination that do not meet certain criteria to be included in the amount initially recognized as goodwill. Those recognition criteria do not apply to intangible assets acquired in transactions other than business combinations.

A11. Statement 160 is amended as follows:

a. Paragraph C3(c), to show the correct amendment to paragraph 19(m) of Opinion 18. As indicated in paragraph A9(f) above, paragraph E7 of Statement 141(R), which also amended paragraph 19(m), is deleted. **[Note: The correct amendment to paragraph 19(m) of Opinion 18 is reflected in the 2008 *Original Pronouncements*.]**

> Paragraph 19(m):
>
> An investment in common stock of an investee that was previously accounted for on other than the equity method may become qualified for use of the equity method by an increase in the level of ownership described in paragraph 17 (i.e., acquisition of additional voting stock by the investor, acquisition or retirement of voting stock by the investee, or other transactions). When an investment qualifies for use of the equity method, the investor should adopt the equity method of accounting. The investment, results of operations (current and prior periods presented), and retained earnings of the investor should be adjusted retroactively ~~in a manner consistent with the accounting for~~on a step-by-step basis ~~acquisition of a subsidiary.~~as if the equity method had been in effect during all previous periods in which the investment was held.[11a] If that retroactive adjustment is made on or after the date Statement 142 is initially applied in its entirety, the goodwill related to that investment (including goodwill related to step purchases made prior to the initial application of Statement 142) shall not be amortized in determining the amount of the adjustment.

A12. FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions,* is amended as follows:

a. Paragraph A138, to make guidance for asset acquisitions outside a business combination for not-for-profit entities consistent with the amendments made to Appendix D of Statement 141(R).

> Asset acquisitions in which the consideration given is cash are measured by the amount of cash paid, which generally includes the transaction costs of the asset acquisition. However, if the consideration given is not in the form of cash (that is, in the form of noncash assets, liabilities incurred, or equity interests issued), measurement is based on either the cost, which shall be measured

based on the fair value of the consideration given~~to the acquiring entity~~ or the fair value of the assets (or net assets) acquired, whichever is more clearly evident and, thus, more reliably measurable. For transactions involving nonmonetary consideration within the scope of Opinion 29, an acquirer must first determine if any of the conditions in paragraph 20 of Opinion 29 apply. (FAS 141, ¶6)

b. Paragraph A139, to make guidance for asset acquisitions outside a business combination for not-for-profit entities consistent with the amendments made to Appendix D of Statement 141(R).

Allocating cost. Acquiring assets in groups requires not only ascertaining the cost of the asset (or net asset) group but also allocating that cost to the individual assets (or individual assets and liabilities) that make up the group. The cost of such a group shall be determined using the concepts described in paragraphs A137 and A138. The cost of a group of assets acquired in an asset acquisition shall be allocated to the individual assets acquired or liabilities assumed based on their relative fair values and shall not give rise to goodwill. The allocated cost of an~~An~~ asset that the entity does not intend to use or intends to use in a way that is not its highest and best use, such as a brand name, shall nevertheless be measured on the basis of its relative fair value. (FAS 141, ¶7; FAS 142, ¶9)

c. Paragraph E12(c), to correct the amendment by Statement 164 to footnote 3 of Statement 142 because the amendment in Statement 164 was based on an incorrectly amended footnote included in the published version of the 2008 *Original Pronouncements.* See paragraph A10(a) above for the correct amendment to footnote 3 of paragraph 4 of Statement 142.

Statement 141(R) and Statement 164 address the initial recognition and measurement of intangible assets acquired in a business combination or in an acquisition of a business or nonprofit activity by a not-for-profit entity. Statement 164 also addresses the initial measurement of intangible assets by the new entity resulting from the merger of two or more not-for-profit entities.~~requires that the acquisition of some or all of the noncontrolling interests in a subsidiary be accounted for using the acquisition method.~~

d. Paragraph E12(e), to make the paragraph amending paragraph 9 of Statement 142, consistent with the amendments made in paragraph A10(b) above.

Paragraph 9 and its related footnote 7, as amended:

An intangible asset that is acquired either individually or with a group of other assets (but not those acquired in a business combination) shall be initially recognized and measured based on the guidance included in paragraphs D2–D7 of Statement 141(R) or paragraphs A135–A140 of Statement 164. ~~its fair value. The fair value of an intangible asset shall be determined based on the assumptions that market participants would use in pricing the asset. An asset that the entity does not intend to use or intends to use in a way that is not its highest and best use, such as a brand name or a research and development asset, shall nevertheless be measured at its fair value. General concepts related to the initial measurement of assets acquired in exchange transactions, including intangible assets, are provided in paragraphs D2–D7 of Statement 141(R) and in paragraphs A135–A140 of Statement 164.~~~~[6]~~ As indicated in paragraph D6 of Statement 141(R) or in paragraph A139 of Statement 164, the~~The~~ cost of a group of assets acquired in a transaction other than a business combination or an acquisition of a business or nonprofit entity by a not-for-profit entity shall be allocated to the individual assets acquired based on their relative fair values and shall not give rise to goodwill.[7] Intangible assets acquired in a business combination are initially recognized and measured in accordance with Statement 141(R). Intangible assets acquired in an acquisition of a business or nonprofit activity by a not-for-profit entity are initially recognized and measured in accordance with Statement 164.

~~[6]Although those paragraphs refer to determining the cost of the assets acquired, paragraph 18 of APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, note that, in general, cost should be measured based on the fair value of the consideration given or the fair value of the net assets acquired, whichever is more reliably measurable.~~

[7]Statement 141(R) requires intangible assets acquired in a business combination that do not meet certain criteria to be included in the amount initially recognized as goodwill. Statement 164 has similar requirements except that in an acquisition of a business or nonprofit activity by a not-for-profit entity, under certain conditions the amount of goodwill is written off. Those recognition criteria in Statements 141(R) and 164 do not apply to intangible assets acquired in transactions other than business combinations or acquisitions of businesses or nonprofit activities by a not-for-profit entity.

A13. FASB Interpretation No. 14, *Reasonable Estimation of the Amount of a Loss,* is amended as follows:

a. Paragraph 7, to eliminate an example that was effectively superseded by FSP FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments,* issued in November 2005. This example indicates that the test for impairment of a nonmarketable equity security is within the scope of FASB Statement No. 5, *Accounting for Contingencies*. The accounting for an impairment of a nonmarketable equity security or cost method investment is included within the scope of FSP FAS 115-1 and FAS 124-1 and not Statement 5. Equity securities accounted for under the equity method are within the scope of Opinion 18.

> ~~As a further example, assume that at December 31, 1976 an enterprise has an investment of $1,000,000 in the securities of another enterprise that has declared bankruptcy, and there is no quoted market price for the securities. Condition (a) in paragraph 8 has been met because information available indicates that the value of the investment has been impaired, and a reasonable estimate of loss is a range between $300,000 and $600,000. No amount of loss in that range appears at the time to be a better estimate of loss than any other amount. *FASB Statement No. 5* requires accrual of the $300,000 loss at December 31, 1976, disclosure of the nature of the contingency and the exposure to an additional amount of loss of up to $300,000, and possibly disclosure of the amount of the accrual.~~

A14. Interpretation 48 is amended as follows:

a. Paragraph 13, to correct an incorrect reference. Paragraphs 35–38 of Statement 109 provide guidance for intraperiod tax allocation, not just paragraphs 35 and 38.

> A change in judgment that results in subsequent recognition, derecognition, or change in measurement of a tax position taken in a prior annual period (including any related interest and penalties) shall be recognized as a discrete item in the period in which the change occurs. The provisions of paragraphs 35–38~~35 and 38~~ in Statement 109 that pertain to intraperiod tax allocation are not changed by this Interpretation.

b. Paragraph A30, to clarify that the liability for the unrecognized tax benefit for the change in the timing of the amortization may result in an unrecognized tax benefit for interest and penalties not previously recorded, if applicable under the tax law, and would not result in an adjustment to the cumulative-effect adjustment. Any interest and penalties recorded upon adoption would be included in the cumulative-effect adjustment.

> Upon adoption of this Interpretation, the enterprise should eliminate the deferred tax liability~~,~~ and recognize a liability for unrecognized tax benefits based on the difference between the three- and seven-year amortization~~, and recognize a cumulative-effect adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that fiscal year, presented separately~~. Additionally, the enterprise should recognize any additional liability required for~~begin accruing~~ interest and penalties, if applicable under the tax law with the offsetting amount reflected as part of the cumulative-effect adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that fiscal year.

A15. AICPA Statement of Position 94-3, *Reporting of Related Entities by Not-for-Profit Organizations,* is amended as follows:

a. Footnote 1 to paragraph .01, to reflect the minor wording changes to the glossary term *combined financial statements* in paragraph B1 of ARB No. 51, *Consolidated Financial Statements,* as added.

> *Consolidation* of a parent and subsidiary organizations requires the presentation of a single set of amounts for the entire reporting entity. ~~*Combination*~~*Combined financial statements*, as discussed in paragraphs 22 and 23 of Accounting Research Bulletin (ARB) No. 51, *Consolidated Financial Statements,* refers to financial statements of a combined group of commonly controlled entities or commonly managed entities presented as those of a single economic entity. The combined group does not include the parent. ~~prepared for organizations among which common control exists but for which the parent-subsidiary relationship does not exist.~~ Both consolidation and combination require elimination of interorganization transactions and balances. This SOP provides no guidance concerning commonly controlled not-for-profit organizations.

A16. EITF Issue No. 01-2, "Interpretations of APB Opinion No. 29," is amended as follows:

a. Paragraph 3(d), to be consistent with paragraph 44 of FASB Statement No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies,* as amended. This scope exception should have been deleted as an amendment to the Issue when Statement 153 was issued.

~~Transfers of assets used in oil- and gas-producing activities (including either proved or unproved properties) in exchange for other assets also used in oil- and gas-producing activities (the accounting for which is addressed in paragraph 44 of Statement 19 as replaced by paragraph 9(d) of Statement 145).~~

A17. AICPA Practice Bulletin No. 6, *Amortization of Discounts on Certain Acquired Loans,* is amended as follows:

a. Paragraph .22, to reflect the issuance of Statement 141(R).

[Note: For ease of use, the remainder of this paragraph, which is unaffected by the amendments in this Update, has been omitted.]

Illustration 6

Y, an acquired bank, had a loan that originally paid 12-percent interest and that was secured by cash flows from a producing oil well. The well had proven reserves and the collateral coverage was 125 percent of the loan based on net cash flows ([oil produced x market price of oil]—cost to produce).

The price of oil subsequently decreased. Y agreed to accept reduced interest payments in a troubled debt restructuring, because estimates of cash flows at that time indicated that the loan principal plus 4-percent interest would be repaid. The borrower will continue to operate the well, and it is reasonably possible that cash flows of the borrower from additional sources would become available to the bank.

Z acquired Y in a ~~purchase~~ business combination and, in accordance with <u>FASB Statement 141(R),</u>~~APB Opinion 16,~~ recorded the loan <u>at fair value.</u>~~"at present values of amounts to be received determined at appropriate current interest rates." Z believes that the amount and timing of the cash flows are reasonably estimable and the amount is probable of collection.~~

A18. AICPA Practice Bulletin No. 14, *Accounting and Reporting by Limited Liability Companies and Limited Liability Partnerships,* is amended as follows:

a. Paragraph .14, to reflect the issuance of FASB Statement No. 154, *Accounting Changes and Error Corrections*.

Presentation of comparative financial statements is encouraged, but not required, by Chapter 2A, "Comparative Financial Statements," of Accounting Research Bulletin (ARB) No. 43, *Restatement and Revision of Accounting Research Bulletins*. If comparative financial statements are presented, amounts shown for comparative purposes must be in fact comparable with those shown for the most recent period, or any exceptions to comparability must be disclosed in the notes to the financial statements. Situations may exist in which financial statements of the same reporting entity for periods prior to the period of conversion are not comparable with those for the most recent period presented, for example, if transactions such as spin-offs or other distributions of assets occurred prior to or as part of the LLC's formation. In such situations, sufficient disclosure should be made so the comparative financial statements are not misleading. If the formation of the LLC results in a new reporting entity, the guidance in FASB Statement No. 154, *Accounting Changes and Error Corrections*, paragraphs 23 and 24~~Accounting Principles Board (APB) Opinion No. 20, *Accounting Changes*, paragraphs 34 and 35~~, should be followed and the change should be retrospectively applied to the financial statements of all prior periods presented to show financial information for the new reporting entity for those periods.~~financial statements for all prior periods presented should be restated.~~

Amendments Resulting from Statement 160

A19. Paragraph C2 of Statement 160 states that all instances of the term *minority interest(s)* are replaced by the term *noncontrolling interest(s)*. However, that amendment was limited to revising the term *minority interest(s)*. The amendments in this Update will update equivalent terms including *minority* to *noncontrolling,* for example, minority shareholder(s), minority public ownership, and minority ownership. In addition, the amendments in this Update will delete the term *minority* from EITF Issue No. 94-10, "Accounting by a Company for the Income Tax Effects of Transactions among or with Its Shareholders under FASB Statement No. 109," because it is not relevant.

a. Opinion 18 is amended as follows:

    (1) Paragraph 3(d):

        "Corporate joint venture" refers to a corporation owned and operated by a small group of businesses (the "joint venturers") as a separate and specific business or project for the mutual benefit of the members of the group. A government may also be a member of the group. The purpose of a corporate joint venture frequently is to share risks and rewards in developing a new market, product or technology; to combine complementary technological knowledge; or to pool resources in developing production or other facilities. A corporate joint venture also usually provides an arrangement under which each joint venturer may participate, directly or indirectly, in the overall management of the joint venture. Joint venturers thus have an interest or relationship other than as passive investors. An entity which is a subsidiary of one of the "joint venturers" is not a corporate joint venture. The ownership of a corporate joint venture seldom changes, and its stock is usually not traded publicly. A ~~minority~~noncontrolling interest held by public ownership, however, does not preclude a corporation from being a corporate joint venture.

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

(1) Paragraph 107, as amended:

Noncontrolling interests in consolidated subsidiaries. The interests of ~~minority~~noncontrolling shareholders in the earnings and equity of subsidiaries are, from the consolidated entity's point of view, claims that are not fixed. Rather, they are residuals that will vary based on the subsidiary's earnings, dividends, and other transactions affecting its equity and so are nonmonetary. (Refer to paragraph 108 as to classification of capital stock of the enterprise or of its consolidated subsidiaries subject to mandatory redemption at fixed amounts.)

c. Statement 109 is amended as follows:

(1) Paragraph 33(b), as amended:

An enterprise may execute a statutory merger whereby a subsidiary is merged into the parent company, the ~~minority~~noncontrolling shareholders receive stock of the parent, the subsidiary's stock is cancelled, and no taxable gain or loss results if the continuity of ownership, continuity of business enterprise, and certain other requirements of the tax law are met.

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

(1) Footnote 8 to paragraph 5(b)(1):

> Enterprises that are not controlled by the holder of a majority voting interest because of ~~minority~~noncontrolling shareholder veto rights as discussed in EITF Issue No. 96-16, "Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the ~~Minority~~Noncontrolling Shareholder or Shareholders Have Certain Approval or Veto Rights," are not variable interest entities if the shareholders as a group have the power to control the enterprise and the equity investment meets the other requirements of this Interpretation.

e. Issue 94-10 is amended as follows:

   (1) The second paragraph of the Issue section, to eliminate the reference to *minority interest* because transactions with minority/noncontrolling interests are accounted for in the same manner as transactions with other shareholders in accordance with Statement 160.

> Other transactions among shareholders may change the tax bases of the assets and liabilities of the company. For example, an investor purchases 100 percent of the outstanding stock of a company in a transaction that is treated as a purchase of assets for tax purposes but does not "push down" the purchase price for financial reporting purposes to the acquired company. In that situation, the acquired company's financial reporting bases of its assets and liabilities do not change but the tax bases of its assets and liabilities are adjusted and, consequently, the deferred tax liabilities and assets are also adjusted accordingly. This Issue does not address shareholder transactions ~~among or with minority shareholders of a subsidiary or shareholder transactions~~ that involve a change in the tax status of a company (such as a change from nontaxable S corporation status to taxable C corporation status).

f. 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," is amended as follows:

   (1) The title:

> "Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the ~~Minority~~Noncontrolling Shareholder or Shareholders Have Certain Approval or Veto Rights"

(2) All instances of the term *minority* are replaced by the term *noncontrolling*.

g. AICPA Statement of Position 78-9, *Accounting for Investments in Real Estate Ventures,* is amended as follows:

(1) Paragraph .05, to reflect the revised definition of the term *subsidiary* included in paragraph B1 of ARB 51, as amended, and to update the term *minority* to *noncontrolling*, as amended by Statement 160.

> Paragraph 3 of APB Opinion 18 states that "an entity which is a subsidiary of one of the 'joint venturers' is not a corporate joint venture." A subsidiary, according to that opinion, refers to
>
> > . . . an entity, including an unincorporated entity such as a partnership or trust, in which another entity, known as its parent, holds a controlling financial interest also, a variable interest entity that is consolidated by a primary beneficiary). ~~. . . a corporation which is controlled, directly or indirectly, by another corporation. The usual condition for control is ownership of a majority (over 50 percent) of the outstanding voting stock. The power to control may also exist with a lesser percentage of ownership, for example, by contract, lease, agreement with other stockholders, or by court decree.~~
>
> Accordingly, an investment in a corporate subsidiary that is a real estate venture should be accounted for by the investor-parent using the principles applicable to investments in subsidiaries rather than those applicable to investments in corporate joint ventures. ~~Minority~~Noncontrolling shareholders in such a real estate venture should account for their investment using the principles applicable to investments in common stock set forth in APB Opinion 18 or in FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. [Revised, January 2010, ~~April 1996,~~ to reflect conforming changes necessary due to the issuance of recent authoritative literature.]

h. AICPA Audit and Accounting Guide, *Health Care Organizations,* is amended as follows:

(1) Paragraph 11.16:

When consolidated financial statements are required or permitted, a ~~minority~~noncontrolling interest should be provided if such interest is represented by an economic interest whereby the ~~minority~~noncontrolling interest would share in the operating results or residual interest upon dissolution.