FINANCIAL ACCOUNTING SERIES

ACCOUNTING STANDARDS UPDATE

No. 2010-22
August 2010

Accounting for Various Topics

Technical Corrections to SEC Paragraphs

An announcement made by the staff of the
U.S. Securities and Exchange Commission

An Amendment of the *FASB Accounting Standards Codification*™

Financial Accounting Standards Board
of the Financial Accounting Foundation

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Amendments to the
FASB Accounting Standards Codification™

Securities and Exchange Commission (SEC) Content

Accounting for Various Topics

Technical Corrections to SEC Paragraphs

This Accounting Standards Update amends various SEC paragraphs based on external comments received and the issuance of SAB 112, which amends or rescinds portions of certain SAB topics.

1. Based on the issuance of SAB 112, amend paragraph 270-10-S99-2 with no link to a transition paragraph, as follows:

> SEC Staff Guidance

>> Staff Accounting Bulletins

>>> SAB Topic 6.G.2, Amendments to Form 10Q

270-10-S99-2 The following is the text of SAB Topic 6.G.2, Amendments to Form 10Q.

a. Form of condensed financial statements.

> Facts: Rules 10-01(a)(2) and (3) of Regulation S-X provide that interim balance sheets and statements of income shall include only major captions (i.e., numbered captions) set forth in Regulation S-X, with the exception of inventories where data as to raw materials, work in process and finished goods shall be included, if applicable, either on the face of the balance sheet or in notes thereto. Where any major balance sheet caption is less than 10% of total assets and the amount in the caption has not increased or decreased by more than 25% since the end of the preceding fiscal year, the caption may be combined with others. When any major income statement caption is less than 15% of average net income <u>attributable to the registrant</u> for the

most recent three fiscal years and the amount in the caption has not increased or decreased by more than 20% as compared to the corresponding interim period of the preceding fiscal year, the caption may be combined with others. Similarly, the statement of cash flows may be abbreviated, starting with a single figure of cash flows provided by operations and showing other changes individually only when they exceed 10% of the average of cash flows provided by operations for the most recent three years.

Question 1: If a company previously combined captions in a Form 10-Q but is required to present such captions separately in the Form 10-Q for the current quarter, must it retroactively reclassify amounts included in the prior-year financial statements presented for comparative purposes to conform with the captions presented for the current-year quarter?

Interpretive Response: Yes.

~~Question 2: In determining whether or not major income statement captions may be combined, does average "net income" for the last three years (using the company's last year end as the starting point) mean "net income" or income before extraordinary items and changes in accounting principles?~~

~~Interpretive Response: It means "net income."~~

Question ~~3~~2: If a company uses the gross profit method or some other method to determine cost of goods sold for interim periods, will it be acceptable to state only that it is not practicable to determine components of inventory at interim periods?

Interpretive Response: The staff believes disclosure of inventory components is important to investors. In reaching this decision, the staff recognizes that registrants may not take inventories during interim periods and that managements, therefore, will have to estimate the inventory components. However, the staff believes that management will be able to make reasonable estimates of inventory components based upon their knowledge of the company's production cycle, the costs (labor and overhead) associated with this cycle as well as the relative sales and purchasing volume of the company.

Question ~~4~~3: If a company has years during which operations resulted in a net outflow of cash and cash equivalents, should it exclude such years from the computation of cash and cash equivalents provided by operations for the three most recent years in determining what sources and applications must be shown separately?

2. Based on the issuance of SAB 112, amend paragraph 340-10-S99-2 with no link to a transition paragraph, as follows:

> SEC Staff Guidance

>> Staff Accounting Bulletins

>>> SAB Topic 2.A.6, Debt Issue Costs in Conjunction with a Business Combination

340-10-S99-2 The following is the text of SAB Topic 2.A.6, Debt Issue Costs in Conjunction with a Business Combination.

Facts: Company A is to acquire the net assets of Company B in a transaction to be accounted for as a business combination. In connection with the transaction, Company A has retained an investment banker to provide advisory services in structuring the acquisition and to provide the necessary financing. It is expected that the acquisition will be financed on an interim basis using "bridge financing" provided by the investment banker. Permanent financing will be arranged at a later date through a debt offering, which will be underwritten by the investment banker. Fees will be paid to the investment banker for the advisory services, the bridge financing and the underwriting of the permanent financing. These services may be billed separately or as a single amount.

Question 1: ~~Are all fees paid to the investment banker a direct cost of the acquisition and, as such, accounted for as an element of the purchase price of the business acquired?~~Should total fees paid to the investment banker for acquisition-related services and the issuance of debt securities be allocated between the services received?

Interpretive Response: ~~No.~~Yes. Fees paid to an investment banker in connection with a business combination or asset acquisition, when the investment banker is also providing interim financing or underwriting services, must be allocated between ~~direct costs of the~~ acquisition related services and debt issue costs.

~~Statement 141 provides that direct costs such as finder's fees and fees paid to outside consultants should be treated as components of the cost of the acquisition, while the costs of registering and issuing any equity securities are treated as a reduction of the otherwise determined fair value of the equity securities. However, debt issue costs are an element of the effective interest cost of the debt, and neither the source of the debt financing nor the use of the debt proceeds changes the nature of such costs. Accordingly, they should not be considered a direct cost of the acquisition.~~

~~The portions of the fees allocated to direct costs and to debt issue costs should be representative of the actual services provided. Thus, in making a reasonable allocation (or in determining that an allocation made by the investment banker is reasonable FN4 factors such as (i) the fees charged by investment bankers in connection with other recent bridge financings and (ii) fees charged for advisory services when obtained separately, should normally be considered to determine the relative fair values of the two services. Whether these or other factors are considered, the allocation should normally result in an effective debt service cost (interest and amortization of debt issue costs FN5 which is comparable to the effective cost of other recent debt issues of similar investment risk and maturity. The amount accounted for as debt issue costs should be separately disclosed, if material. FN6~~

> ~~FN4 This would apply irrespective of whether the fees for the services were billed as a single amount or separately, since the separate billing of the services implicitly involves an allocation by the investment banker.~~
>
> ~~FN5 See Question 2 regarding the period over which the debt issue costs related to bridge financings should be amortized.~~
>
> ~~FN6 See Rule 5-02(17) of Regulation S-X.~~

When an investment banker provides services in connection with a business combination or asset acquisition and also provides underwriting services associated with the issuance of debt or equity securities, the total fees incurred by an entity should be allocated between the services received on a relative fair value basis. The objective of the allocation is to ascribe the total fees incurred to the actual services provided by the investment banker. Statement 141(R) (Topic 805) provides guidance for the portion of the costs that represent acquisition-related services. The portion of the costs pertaining to the issuance of debt or equity securities should be accounted for in accordance with other applicable GAAP.

Question 2: May the debt issue costs of the interim "bridge financing" be amortized over the anticipated combined life of the bridge and permanent financings?

Interpretive Response: No. Debt issue costs should be amortized by the interest method over the life of the debt to which they relate. Debt issue costs related to the bridge financing should be recognized as interest cost during the estimated interim period preceding the placement of the permanent financing with any unamortized amounts charged to expense if the bridge loan is repaid prior to the expiration of the estimated period. Where the bridged financing consists of increasing rate debt, the consensus reached in EITF Issue 86-15 (Subtopic 470-10) should be followed. FN1~~FN7~~

> FN1~~FN7~~ As noted in the "Status" section of the Abstract to Issue 86-15, the term-extending provisions of the debt instrument should be analyzed to determine whether they constitute an embedded derivative requiring separate accounting in accordance with Statement 133 (as amended). (Paragraph 470-10-35-2.)

3. Based on the issuance of SAB 112, supersede paragraph 505-10-S99-6 with no link to a transition paragraph, as follows:

505-10-S99-6 Paragraph superseded by Accounting Standards Update No. 2010-22.~~The following is the text of SAB Topic 5.H, Accounting for Sales of Stock by a Subsidiary.~~

~~Facts: The registrant owns 95% of its subsidiary's stock. The subsidiary sells its unissued shares in a public offering, which decreases the registrant's ownership of the subsidiary from 95% to 90%. The offering price per share exceeds the registrant's carrying amount per share of subsidiary stock.~~

~~Question 1: When an offering takes the form of a subsidiary's direct sale of its unissued shares, will the staff permit the amount in excess of the parent's carrying value to be reflected as a gain in the consolidated income statement of the parent?~~

~~Interpretive Response: Yes, in some circumstances. Although the staff at one time insisted that such transactions be accounted for as capital transactions in the consolidated financial statements, it has reconsidered its views on this matter with respect to certain of these transactions where the sale of such shares by a subsidiary is not a part of a broader corporate reorganization contemplated or planned by the registrant. In situations where no other such capital transactions are contemplated, the staff has~~

~~determined that it will accept accounting treatment for such transactions that is in accordance with the Advisory Conclusions in paragraph 30 of the June 3, 1980 Issues Paper, "Accounting in Consolidation for Issuances of a Subsidiary's Stock." The staff believes that this issues paper should provide appropriate guidance on this matter until the FASB addresses this issue as a part of its project on Accounting for the Reporting Entity, including Consolidations, the Equity Method, and Related Matters.~~

~~Question 2: What is meant by the phrase "broader corporate reorganization contemplated or planned by the registrant" and are there other situations where the staff has objected to gain recognition?~~

~~Interpretive Response: The staff believes that gain recognition is not appropriate in situations where subsequent capital transactions are contemplated that raise concerns about the likelihood of the registrant realizing that gain, such as where the registrant intends to spin-off its subsidiary to shareholders or where reacquisition of shares is contemplated at the time of issuance. The staff will presume that repurchases were contemplated at the date of issuance in those situations where shares are repurchased within one year of issuance or where a specific plan existed to repurchase shares at the time shares were issued. In addition, the staff believes that realization is not assured where the subsidiary is a newly-formed, non-operating entity; a research and development, start-up or development stage company; an entity whose ability to continue in existence is in question; or other similar circumstances. In those situations, the staff believes that the change in the parent company's proportionate share of subsidiary equity resulting from the additional equity raised by the subsidiary should be accounted for as an equity transaction in consolidation. Gain deferral is not appropriate.~~

~~Question 3: In the staff's opinion, may gain be recognized for issuances of subsidiary stock in situations other than sales of unissued shares in a public offering?~~

~~Interpretive Response: Yes. The staff believes that gain recognition is acceptable in situations other than sales of unissued shares in a public offering as long as the value of the proceeds can be objectively determined. With respect to issuances of stock options, warrants, and convertible and other similar securities, gain should not be recognized before exercise or conversion into common stock, and then only provided that realization of the gain is reasonably assured (see Question 2 above) at the time of such exercise or conversion.~~

~~Question 4: Will repurchasing shares of a subsidiary's stock affect the potential for gain recognition by the registrant in consolidation for subsequent issuances of that subsidiary's stock? FN4~~

> ~~FN4 This question and interpretive response assume that the repurchases were not contemplated at the time of earlier gain recognition. See Question 2.~~

~~Interpretive Response: Yes. Where previous gains have been recognized in consolidation on issuances of a subsidiary's stock and shares of the subsidiary are subsequently repurchased by the subsidiary, its parent or any member of the consolidated group, gain recognition should not occur on issuances subsequent to the date of a repurchase until such time as shares have been issued in an amount equivalent to the number of repurchased shares. The staff views such transactions as analogous to treasury stock transactions from the standpoint of the consolidated entity that should not result in recognition of gains or losses.~~

~~Question 5: May registrants selectively apply the guidance in the SAB by recognizing the impact of certain issuances by a subsidiary in the income statement and other issuances as equity transactions?~~

~~Interpretive Response: No. The staff believes that income statement treatment in consolidation for issuances of stock by a subsidiary represents a choice among alternative accounting methods and, therefore, must be applied consistently to all stock transactions that meet the conditions for income statement treatment set forth herein for any subsidiary. If a registrant recognizes gains on issuances of stock by a subsidiary, thus adopting income statement recognition as its accounting policy, then it must also recognize losses for stock issuances by that or any other subsidiary that result in decreases in its proportionate share of the dollar amount of the subsidiary's equity. Regardless of the method of accounting selected, when a subsidiary issues securities at prices less than the parent's carrying value per share, the registrant must assess whether the investment has been impaired, in which case a provision should be reflected in the income statement.~~

~~Question 6: How should the registrant disclose the accounting for issuances of a subsidiary's stock in the consolidated financial statements?~~

~~Interpretive Response: The staff believes that gains (or losses) arising from issuances by a subsidiary of its own stock, if recorded in income by the parent, should be presented as a separate line item in the consolidated~~

~~income statement without regard to materiality and clearly be designated as non-operating income. An appropriate description of the transaction should be included in the notes to the financial statements, as further described below.~~

~~The accounting method adopted by the registrant for issuances of a subsidiary's stock should be disclosed in its accounting policy footnote and consistently applied (See Question 5). The staff believes that the registrant also should include a separate footnote that describes issuances of subsidiary stock that have occurred during all periods presented. This footnote should clearly describe the transaction, the identification of the subsidiary and nature of its operations, the number of shares issued, the price per share and the total dollar amount and nature of consideration received, and the percentage ownership of the parent both before and after the transaction. Additionally, the registrant should clearly state whether deferred income taxes have been provided on gains recognized and, if no provision has been recorded, a clear explanation of the reasons. Finally, the staff expects registrants to include disclosure in their Management Discussion and Analysis of the impact of specific transactions that have occurred and the likelihood of similar transactions occurring in future years.~~

4. Based on the issuance of SAB 112, supersede paragraph 605-40-S99-1 with no link to a transition paragraph, as follows:

~~**> SEC Staff Guidance**~~

~~**> > Staff Accounting Bulletins**~~

~~**> > > SAB Topic 5.U, Gain Recognition on the Sale of a Business or Operating Assets to a Highly Leveraged Entity**~~

605-40-S99-1 <u>Paragraph superseded by Accounting Standards Update No. 2010-22.</u>~~The following is the text of SAB Topic 5.U, Gain Recognition on the Sale of a Business or Operating Assets to a Highly Leveraged Entity.~~

~~Facts: A registrant has sold a subsidiary, division or operating assets to a newly formed, thinly capitalized, highly leveraged entity (NEWCO) for cash or a combination of cash and securities, which may include subordinated debt, preferred stock, warrants, options or other instruments issued by NEWCO. In some of these transactions, registrants may guarantee debt or enter into other agreements (sometimes referred to as make-well agreements) that may require the registrant to infuse cash into NEWCO under certain circumstances. Securities received in the transaction are not actively traded and are subordinate to substantially all of NEWCO's other debt. The value of the consideration received appears to exceed the cost basis of the net assets sold.~~

~~Question 1: Assuming the transaction may be properly accounted for as a divestiture, FN42 does the staff believe it is appropriate for the registrant to recognize a gain?~~

> ~~FN42 Transactions such as these require careful evaluation to determine whether, in substance, a divestiture has occurred. SAB Topic 5.E provides the staff's views on circumstances that may exist that would lead the staff to conclude that the risks of the business have not been transferred to the new owners and that a divestiture has not occurred. Topic 5.E indicates that factors to consider in determining whether a transaction should be accounted for as a divestiture include:~~
>
> > ~~continuing involvement by the seller in the business;~~
> >
> > ~~absence of a significant financial investment in the business by the buyer;~~
> >
> > ~~repayment of debt, which constitutes the principal consideration in the transaction, is dependent on future successful operations; or~~
> >
> > ~~the continued necessity for debt or contract performance guarantees on behalf of the business by the seller.~~
>
> ~~Further, the seller should consider whether it is required to consolidate the entity by way of its variable interests held in the NEWCO pursuant to the provisions of FASB Interpretation 46.~~

~~Interpretive Response: The staff believes there often exist significant uncertainties about the seller's ability to realize non-cash proceeds received in transactions in which the purchaser is a thinly capitalized, highly leveraged entity, particularly when its assets consist principally of those purchased from the seller. The staff believes that such uncertainties raise doubt as to whether immediate gain recognition is appropriate. Factors that may lead the staff to question gain recognition in such transactions include:~~

> ~~1. situations in which the assets or operations sold have historically not produced cash flows from operations FN43 that will be sufficient to fund future debt service and full dividend requirements on a current basis. FN44 Often the servicing of debt and preferred dividend requirements is dependent upon future events that cannot be assured, such as sales of assets or improvements in earnings.~~

~~FN43 As defined in paragraphs 21-24 of Statement 95.~~

~~FN44 The ability of NEWCO to fund the debt service and the dividend requirement(s) should be evaluated on a full accrual basis - i.e., irrespective of the purchaser's ability to satisfy those requirements through deferral (contractually or otherwise) of any required cash payments or the issuance of additional securities to satisfy such requirements.~~

~~2. the lack of any substantial amount of equity capital in NEWCO other than that provided by the registrant; and/or.~~

~~3. the existence of contingent liabilities of the registrant, such as debt guarantees or agreements that require the registrant to infuse cash into NEWCO under certain circumstances.~~

~~The staff also believes that even where the registrant receives solely cash proceeds, the recognition of any gain would be impacted by the existence of any guarantees or other agreements that may require the registrant to infuse cash into NEWCO, particularly when the first two factors listed above exist.~~

~~Question 2: If immediate recognition of all or a portion of the apparent gain is not appropriate due to the existence of facts and circumstances similar to the above, at what future date should the gain be recognized and how should the deferred gain be disclosed in the financial statements?~~

~~Interpretive Response: Generally, the staff believes that the deferred gain FN45 should not be recognized until such time as cash flows from operating activities are sufficient to fund debt service and dividend requirements (on a full accrual basis) FN46 or the registrant's investment in NEWCO has been or could be readily converted to cash (e. g., active trading market develops in NEWCO securities and the registrant is not restricted from selling such securities, the registrant sells the securities received on a nonrecourse basis, etc.) and the registrant has no further obligations under any debt guarantees or other agreements that would require it to make additional investments in NEWCO.~~

~~FN45 In situations in which the gain is deferred following the guidance in this SAB, the staff believes that the seller generally should not recognize any income from the securities received in such transactions (including accretion of securities to their face or redemption value) until realization is more fully assured.~~

~~FN46 See note 44.~~

~~The staff believes that the amount of any deferred gain (including deferral of interest or dividend income on securities received) should be disclosed on the face of the balance sheet as a deduction from the related asset account (i. e., investment in NEWCO).~~

~~The footnotes to the financial statements should include a complete description of the transaction, including the existence of any commitments and contingencies, the terms of the securities received, and the accounting treatment of amounts due thereon.~~

5. Based on the issuance of SAB 112, amend paragraph 805-10-S99-2 with no link to a transition paragraph, as follows:

> SEC Staff Guidance

> > Staff Accounting Bulletins

> > > SAB Topic 2.A.8, Business Combinations Prior to a Initial Public Offering

805-10-S99-2 The following is the text of SAB Topic 2.A.8, Business Combinations Prior to an Initial Public Offering.

Facts: Two or more businesses combine in a single combination just prior to or contemporaneously with an initial public offering.

Question: Does the guidance in SAB Topic 5.G apply to business combinations entered into just prior to or contemporaneously with an initial public offering?

Interpretive Response: No. The guidance in SAB Topic 5.G is intended to address the transfer, just prior to or contemporaneously with an initial public offering, of nonmonetary assets in exchange for a company's stock. The guidance in SAB Topic 5.G is not intended to modify the requirements of Statement ~~141~~141(R). ~~FN8~~ Accordingly, the staff believes that the combination of two or more businesses should be accounted for in accordance with Statement ~~141~~141(R)(Topic 805).

~~FN8 The provisions of Statement 141 apply to transactions involving the transfer of net assets as well as the acquisition of stock of a corporation. This guidance does not address the~~

~~accounting for joint ventures or leverage buy-out transactions as discussed in EITF Issue 88-16.~~

6. Based on the issuance of SAB 112, supersede paragraph 805-20-S99-1 with no link to a transition paragraph, as follows:

~~**> > Staff Accounting Bulletins**~~

~~**> > > SAB Topic 2.A.7, Loss Contingencies Assumed in a Business Combination**~~

805-20-S99-1 Paragraph superseded by Accounting Standards Update 2010-22. ~~The following is the text of SAB Topic 2.A.7, Loss Contingencies Assumed in a Business Combination.~~

~~Facts: A registrant acquires a business enterprise in a business combination. In connection with the acquisition, the acquiring company assumes certain contingent liabilities of the acquired company.~~

~~Question: How should the acquiring company account for and disclose contingent liabilities that have been assumed in a business combination?~~

~~Interpretive Response: In accordance with Statement 141, the acquiring company should allocate the cost of an acquired company to the assets acquired and liabilities assumed based on their fair values at the date of acquisition. With respect to contingencies for which a fair value is not determinable at the date of acquisition, the guidance of Statement 5 and Interpretation 14 should be applied.~~

~~If the registrant is awaiting additional information that it has arranged to obtain for the measurement of a contingency during the allocation period specified by Statement 141, the staff believes that the registrant should disclose that the purchase price allocation is preliminary. In that circumstance, the registrant should describe the nature of the contingency and furnish other available information that will enable a reader to understand its potential effects on the final allocation and on post-acquisition operating results. Management's Discussion and Analysis should include appropriate disclosure regarding any unrecognized preacquisition contingency and its reasonably likely effects on operating results, liquidity, and financial condition.~~

~~The staff believes that the allocation period should not extend beyond the minimum reasonable period necessary to gather the information that the registrant has arranged to obtain for purposes of the estimate. Since an~~

~~allocation period usually should not exceed one year, registrants believing that they will require a longer period are encouraged to discuss their circumstances with the staff. If it is unlikely that the liability can be estimated on the basis of information known to be obtainable at the time of the initial purchase price allocation, the allocation period should not be extended with respect to that liability. An adjustment to the contingent liability after the expiration of the allocation period would be recognized as an element of net income.~~

7. Based on the issuance of SAB 112, supersede paragraph 805-20-S99-2 with no link to a transition paragraph, as follows:

~~**> > > SAB Topic 2.A.9, Liabilities Assumed in a Business Combination**~~

805-20-S99-2 Paragraph superseded by Accounting Standards Update No. 2010-22**.**~~The following is the text of SAB Topic 2.A.9, Liabilities Assumed in a Business Combination.~~

~~Facts: Company A acquires Company Z in a business combination. Company Z has recorded liabilities for contingencies such as product warranties and environmental costs.~~

~~Question: Are there circumstances in which it is appropriate for Company A to adjust Company Z's carrying value for these liabilities in the purchase price allocation?~~

~~Interpretive Response: Yes. Statement 141 requires that receivables, liabilities, and accruals be recorded in the purchase price allocation at their fair value, typically the present value of amounts to be received or paid, determined using appropriate current market interest rates. In some cases, fair value is readily determinable from contemporaneous arms-length transactions involving substantially identical assets or liabilities, or from amounts quoted by a third party to purchase the assets or assume the liabilities. More frequently, fair values are based on estimations of the underlying cash flows to be received or paid, discounted to their present value using appropriate current market interest rates.~~

~~The historical accounting by Company Z for receivables or liabilities may often be premised on estimates of the amounts to be received or paid. Amounts recorded by Company A in its purchase price allocation may be expected to differ from Company Z's historical carrying values due, at least, to the effects of the acquirer's discounting, including differences in interest rates. Estimation of probable losses and future cash flows involves judgment, and companies A and Z may differ in their systematic approaches~~

~~to such estimation. Nevertheless, assuming that both companies employ a methodology that appropriately considers all relevant facts and circumstances affecting cash flows, the staff believes that the two estimates of undiscounted cash inflows and outflows should not differ by an amount that is material to the financial statements of Company Z, unless Company A will settle the liability in a manner demonstrably different from the manner in which Company Z had planned to do so (for example, settlement of the warranty obligation through outsourcing versus an internal service department). But the source of other differences in the estimates of the undiscounted cash flows to be received or paid should be investigated and reconciled. If those estimates of undiscounted cash flows are materially different, an accounting error in Company Z's historical financial statements may be present, or Company A may be unaware of important information underlying Company Z's estimates that also is relevant to an estimate of fair value.~~

~~The staff is not suggesting that an acquiring company should record assumed liabilities at amounts that reflect an unreasonable estimate. If Company Z's financial statements as of the acquisition date are not fairly stated in accordance with GAAP because of an improperly recorded liability, that liability should not serve as a basis for recording assumed amounts. That is, the correction of a seller's erroneous application of GAAP should not occur through the purchase price allocation. Rather, Company Z's financial statements should be restated to reflect an appropriate amount, with the resultant adjustment being applied to the historical income statement of Company Z for the period(s) in which the trends, events, or changes in operations and conditions that gave rise to the needed change in the liability occurred. It would also be inappropriate for Company Z to report the amount of any necessary adjustment in the period just prior to the acquisition, unless that is the period in which the trends, events, or changes in operations and conditions occurred. The staff would expect that such trends, events, and changes would be disclosed in Management's Discussion and Analysis in the appropriate period(s) if their effect was material to a company's financial position, results of operations or cash flows.~~

~~In summary, the staff believes that purchase price adjustments necessary to record liabilities and loss accruals at fair value typically are required, while merely adding an additional "cushion" of 10 or 20 or 30 percent to such account balances is not appropriate. To arrive at those fair values, the undiscounted cash flows must be projected, period by period, based on historical experience and discounted at the appropriate current market discount rate.~~

8. Based on the issuance of SAB 112, amend paragraph 805-50-S99-1 with no link to a transition paragraph, as follows:

> SEC Staff Guidance

> > Staff Accounting Bulletins

> > > SAB Topic 5.J, ~~Push Down~~New Basis of Accounting Required in Certain ~~Limited~~ Circumstances

805-50-S99-1 The following is the text of SAB Topic 5.J, ~~Push Down~~New Basis of Accounting Required in Certain ~~Limited~~ Circumstances.

> Facts: Company A (or Company A and related persons) acquired substantially all of the common stock of Company B in one or a series of purchase transactions.
>
> Question 1: Must Company B's financial statements presented in either its own or Company A's subsequent filings with the Commission reflect the new basis of accounting arising from Company A's acquisition of Company B when Company B's separate corporate entity is retained?
>
> Interpretive Response: Yes. The staff believes that purchase transactions that result in an entity becoming substantially wholly owned (as defined in Rule 1-02(aa) of Regulation S-X) establish a new basis of accounting for the purchased assets and liabilities.
>
> When the form of ownership is within the control of the parent the basis of accounting for purchased assets and liabilities should be the same regardless of whether the entity continues to exist or is merged into the parent's operations. Therefore, Company ~~A's~~ B's separate financial statements should reflect the new basis of accounting recorded by Company A upon acquisition (i.e., "pushed down" basis). ~~cost of acquiring Company B should be "pushed down," i.e., used to establish a new accounting basis in Company B's separate financial statements. FN5~~
>
> > ~~FN5 The Task Force on Consolidation Problems, Accounting Standards Division of the American Institute of Certified Public Accountants issued a paper entitled "Push Down" Accounting, October 30, 1979. This paper addresses the issues relating to "push down" accounting, cites authoritative literature and indicates that a substantial change in ownership justifies a new basis of accounting.~~

Question 2: What is the staff's position if Company A acquired less than substantially all of the common stock of Company B or Company B had publicly held debt or preferred stock at the time Company B became wholly owned?

Interpretative Response: The staff recognizes that the existence of outstanding public debt, preferred stock or a significant non-controlling ~~minority~~ interest in a subsidiary might impact the parent's ability to control the form of ownership. Although encouraging its use, the staff generally does not insist on the application of push down accounting in these circumstances.

Question 3: Company A borrows funds to acquire substantially all of the common stock of Company B. Company B subsequently files a registration statement in connection with a public offering of its stock or debt. FN6 Should Company B's new basis ("push down") financial statements include Company A's debt related to its purchase of Company B?

> FN6 The guidance in this SAB should also be considered for Company B's separate financial statements included in its public offering following Company B's spin-off or carve-out from Company A.

Interpretive Response: The staff believes that Company A's debt, FN7 related interest expense, and allocable debt issue costs should be reflected in Company B's financial statements included in the public offering (or an initial registration under the Exchange Act) if: (1) Company B is to assume the debt of Company A, either presently or in a planned transaction in the future; (2) the proceeds of a debt or equity offering of Company B will be used to retire all or a part of Company A's debt; or (3) Company B guarantees or pledges its assets as collateral for Company A's debt.

> FN7 The guidance in this SAB should also be considered where Company A has financed the acquisition of Company B through the issuance of mandatory redeemable preferred stock.

Other relationships may exist between Company A and Company B, such as the pledge of Company B's stock as collateral for Company A's debt. FN8 While in this latter situation, it may be clear that Company B's cash flows will service all or part of Company A's debt, the staff does not insist that the debt be reflected in Company B's financial statements providing there is full and prominent disclosure of the relationship between Companies A and B and the actual or potential cash flow commitment. In this regard, the staff believes that Statements 5 (Topic 450) and 57 (Topic 850) as well as Interpretation 45 require sufficient disclosure to allow users of Company B's financial statements to fully understand the impact of the relationship on Company B's present and future cash flows. Rule 4-08(e) of Regulation S-X also requires disclosure of restrictions which limit the payment of dividends. Therefore, the staff believes that the equity section of Company B's balance sheet and any pro forma financial information and capitalization tables should clearly disclose that this arrangement exists. FN9

> FN8 The staff does not believe Company B's financial statements must reflect the debt in this situation because in the event of default on the debt by Company A, the debt holder(s) would only be entitled to B's stock held by Company A. Other equity or debt holders of Company B would retain their priority with respect to the net assets of Company B.

> FN9 For example, the staff has noted that certain registrants have indicated on the face of such financial statements (as part of the stockholder's equity section) the actual or potential financing arrangement and the registrant's intent to pay dividends to satisfy its parent's debt service requirements. The staff believes such disclosures are useful to highlight the existence of arrangements that could result in the use of Company B's cash to service Company A's debt.

Regardless of whether the debt is reflected in Company B's financial statements, the notes to Company B's financial statements should generally disclose, at a minimum: (1) the relationship between Company A and Company B; (2) a description of any arrangements that result in Company B's guarantee, pledge of assets FN10 or stock, etc. that provides security for Company A's debt; (3) the extent (in the aggregate and for each of the five years subsequent to the date of the latest balance sheet presented) to which Company A is dependent on Company B's cash flows to service its debt and the method by which this will occur; and (4) the impact of such cash flows on Company B's ability to pay dividends or other amounts to holders of its securities.

> FN10 A material asset pledge should be clearly indicated on the face of the balance sheet. For example, if all or substantially all of the assets are pledged, the "assets" and "total assets" captions should include parenthetically: "pledged for parent company debt-See Note X."

Additionally, the staff believes Company B's Management's Discussion and Analysis of Financial Condition and Results of Operations should discuss any material impact of its servicing of Company A's debt on its own liquidity pursuant to Item 303(a)(1) of Regulation S-K.

9. Based on the issuance of SAB 112, amend paragraph 810-10-S99-5 with no link to a transition paragraph, as follows:

> SEC Staff Guidance

> > Staff Accounting Bulletins

> > > SAB Topic 5.E, Accounting for Divestiture of a Subsidiary or Other Business Operations

810-10-S99-5 The following is the text of SAB Topic 5.E, Accounting for Divestiture of a Subsidiary or Other Business Operations.

> Facts: Company X transferred certain operations (including several subsidiaries) to a group of former employees who had been responsible for managing those operations. Assets and liabilities with a net book value of approximately $8 million were transferred to a newly formed entity-Company Y-wholly owned by the former employees. The consideration received consisted of $1,000 in cash and interest bearing promissory notes for $10 million, payable in equal annual installments of $1 million each, plus interest, beginning two years from the date of the transaction. The former employees possessed insufficient assets to pay the notes and Company X expected the funds for payments to come exclusively from future operations of the transferred business. Company X remained contingently liable for performance on existing contracts transferred and agreed to guarantee, at its discretion, performance on future contracts entered into by the newly formed entity. Company X also acted as guarantor under a line of credit established by Company Y.
>
> The nature of Company Y's business was such that Company X's guarantees were considered a necessary predicate to obtaining future contracts until such time as Company Y achieved profitable operations and substantial financial independence from Company X.
>
> ~~Question 1: Company X proposes to account for the transaction as a divestiture, but to defer recognition of gain until the owners of Company Y begin making payments on the promissory notes. Does this proposed accounting treatment reflect the economic substance of the transaction?~~

~~Interpretive Response: No. The circumstances are such that the risks of the business have not, in substance, been transferred to Company Y or its owners.~~

~~In assessing whether the legal transfer of ownership of one or more business operations has resulted in a divestiture for accounting purposes, the principal consideration must be an assessment of whether the risks and other incidents of ownership have been transferred to the buyer with sufficient certainty.~~

~~When the facts and circumstances are such that there is a continuing involvement by the seller in the business, recognition of the transaction as a divestiture for accounting purposes is questionable. Such continuing involvement may take the form of effective veto power over major contracts or customers, significant voting power on the board of directors, or other involvement in the continuing operations of the business entailing risks or managerial authority similar to that of ownership.~~

~~Other circumstances may also raise questions concerning whether the incidents of ownership have, in substance, been transferred to the buyer. These include:~~

> ~~Absence of significant financial investment in the business by the buyer, as evidenced, for instance, by a token down payment;~~
>
> ~~Repayment of debt which constitutes the principal consideration in the transaction is dependent on future successful operations of the business; or~~
>
> ~~The continued necessity for debt or contract performance guarantees on behalf of the business by the seller.~~

~~In the above transaction, the seller's continuing involvement in the business and the presence of certain of the other factors cited evidence the fact that the seller has not been divorced from the risks of ownership. Accounting for this proposed transaction as a divestiture—even with deferral of the "gain"—does not reflect its economic substance and therefore is not appropriate.~~

~~Further, Company X may need to consider whether it should consolidate Company Y by way of its variable interests pursuant to the provisions of FASB Interpretation 46 [Subtopic 810-10].~~

~~Question 2: If the transaction is not to be treated as a divestiture for accounting purposes, what is the proper accounting treatment?~~

~~Interpretive Response: If, in the circumstances surrounding a particular transaction, a determination is made that a legal transfer of business ownership should not be recognized as a divestiture for accounting purposes, an accounting treatment consistent with that determination is required. In this instance, if Company Y is not consolidated by Company X, the assets and liabilities of the business which were the subject of the transaction should be segregated in the balance sheet of the selling entity under captions such as: "Assets of business transferred under contractual arrangements (notes receivable)," and "Liabilities of business transferred" or similar captions which appropriately convey the distinction between the legal form of the transaction and its accounting treatment.~~

~~A note to the financial statements should describe the nature of the legal arrangements, relevant financing and other details and the accounting treatment.~~

~~Where, as in this instance, realization of the sale price is wholly or principally dependent on the operating results of the business operations which were the subject of the transaction, the uncertainty associated with such realization should be reflected in the financial statements of the seller. Thus, absent a deterioration in the business, any operating losses of the divested business should be considered the best evidence of a change in valuation of the business in a manner somewhat analogous to equity accounting for an investment in common stock. FN1 If the business suffered a loss during its initial period of operations after the transaction, that loss should be reflected in the financial statements of the seller by recording a valuation allowance and a corresponding charge to income. The amount of the valuation allowance (absent unusual circumstances) would be at least the amount of the loss attributable to the business. Other evidence, however (such as a question as to the ability of the business to continue as a going concern), might require that a higher valuation allowance be established.~~

~~FN1 The staff recognizes that APB Opinion 18 [Subtopic 323-10] is specifically applicable only to the use of the equity method of accounting for investments in common stock. The principles enunciated in Opinion 18 [Subtopic 323-10] are also relevant in these particular circumstances, however, notably paragraph 12 of APB Opinion 18 [paragraph 323-10-05-5], which states, in pertinent part: "The equity method tends to be most appropriate if an investment enables the investor to influence the operating of financial decisions of the investee. The investor then has a degree~~

> ~~of responsibility for the return on its investment, and it is appropriate to include in the results of operations of the investor its share of the earnings or losses of the investee."~~

~~This accounting treatment should be continued for each period until either:~~

> ~~1. The net assets of the business have been written down to zero (or a net liability recognized in accordance with GAAP); or~~
>
> ~~2. Circumstances have changed sufficiently that it has become appropriate to recognize the transaction as a divestiture.~~

~~In the latter instance, it would normally also be appropriate to recaption any asset balance remaining on the balance sheet of the seller in keeping with the changed circumstances, e.g., "Notes receivable."~~

~~In the case where the business reports net income, such net income should not be recorded by the former owner, because the rewards of ownership (but not the risks) have been passed to Company Y. Any payments received on obligations of the buyer arising out of the transaction should be treated as a reduction of the carrying value of the segregated assets of the business.~~

~~Question 3: Should Company X recognize interim (quarterly) losses of the business even if it is projected that it will have a profit for the full year?~~

~~Interpretive Response: Yes. However, for quarters for which the business has net income, such net income may be recognized by Company X to the extent of any cumulative quarterly losses within the same fiscal year. Similarly, quarterly losses of the business need not be recognized by Company X except to the extent that they exceed any cumulative quarterly net income within the same fiscal year.~~

~~Disclosure of this accounting treatment should be made in the notes to Company X's interim financial statements.~~

~~Question 4: If the accounting treatment described above is applied to the transaction, when should a gain or loss on the transaction be recognized?~~

~~Interpretive Response: Whether or not the transaction is treated as a divestiture for accounting purposes, GAAP require that losses on such transactions be recognized.~~

~~When it is determined that no divestiture should be recognized for accounting purposes, it follows that gain should not be recognized until:~~

> ~~1. The circumstances precluding treatment of the transaction as a divestiture have changed sufficiently to permit such recognition; and,~~
>
> ~~2. Any major uncertainties as to ultimate realization of profit have been removed, that is, the consideration received in the transaction can be reasonably evaluated.~~

~~The authoritative literature indicates that:~~

> ~~Profit is deemed to be realized when a sale in the ordinary course of business is effected, unless the circumstances are such that the collection of the sale price is not reasonably assured. FN2~~
>
>> ~~FN2 ARB 43, Chapter 1, Section A. This passage is also quoted in paragraph 12 of APB Opinion 10, footnote 8, which states, in pertinent part: "The Board recognizes that there are exceptional cases where receivables are collectible over an extended period of time and, because of the terms of the transactions or other conditions, there is no reasonable basis for estimating the degree of collectibility. When such circumstances exist, and as long as they exist, either the installment method or the cost recovery method of accounting may be used."~~

~~The considerations discussed above regarding recognition of a divestiture for accounting purposes are also of importance in reaching a determination as to whether or not collection of the sale price is reasonably assured and profit recognition is therefore appropriate. In addition, circumstances such as the following tend to raise questions as to the propriety of profit recognition at any given time subsequent to the transaction:~~

> ~~1. Evidence of financial weakness of the buyer.~~
>
> ~~2. Substantial uncertainty as to the amount of future costs and expenses to be incurred by the seller.~~
>
> ~~3. Substantial uncertainty as to the amount of proceeds to be realized because of the form of consideration received; e.g.,~~

~~nonrecourse debt, notes with optional settlement provisions, purchaser's stock, or other nonmonetary consideration which may be of indeterminable value.~~

~~(Where satisfaction of the buyer's obligations to the seller remains dependent on earnings of the business divested, it will frequently be appropriate for the seller to continue to measure the uncertainty of ultimate collection by the operating losses of the business.)~~

~~The degree of uncertainty surrounding ultimate realization of the consideration is a matter which must be evaluated in the light of the attendant circumstances each time realization is evaluated. The degree of uncertainty is enhanced, however, by the presence of any of the factors referred to above, and such factors must be considered in reaching a determination with respect to recognition of gain.~~

Question: If deconsolidation of the subsidiaries and business operations is appropriate, can Company X recognize a gain?

Interpretive Response: Before recognizing any gain, Company X should identify all of the elements of the divesture arrangement and allocate the consideration exchanged to each of those elements. In this regard, we believe that Company X would recognize the guarantees at fair value in accordance with FIN 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of the Indebtedness of Others* (Subtopic 460-10); the contingent liability for performance on existing contracts in accordance with Statement 5, *Accounting for Contingencies* (Subtopic 450-20); and the promissory notes in accordance with APB 21, *Interest on Receivables and Payables,* and Statements 114, *Accounting by Creditors for Impairment of a Loan,* and 118, *Accounting by Creditors for Impairment of a Loan—Income Recognition and Disclosures* (Subtopic 310-10).

10. Based on the issuance of SAB 112, amend paragraph 932-10-S99-2 with no link to a transition paragraph, as follows:

> SEC Staff Guidance

> > Staff Accounting Bulletins

> > > SAB Topic 2.D, Financial Statements of Oil and Gas Exchange Offers

932-10-S99-2 The following is the text of SAB Topic 2.D, Financial Statements of Oil and Gas Exchange Offers.

Facts: The oil and gas industry has experienced periods of time where there have been a significant number of "exchange offers" (also referred to as "roll-ups" or "put-togethers") to form a publicly held company, take an existing private company public, or increase the size of an existing publicly held company. An exchange offer transaction involves a swap of shares in a corporation for interests in properties, typically limited partnership interests. Such interests could include direct interests such as working interests and royalties related to developed or undeveloped properties and indirect interests such as limited partnership interests or shares of existing oil and gas companies. Generally, such transactions are structured to be tax-free to the individual or entity trading the property interest for shares of the corporation. Under certain circumstances, however, part or all of the transaction may be taxable. For purposes of the discussion in this Topic, in each of these situations, the entity (or entities) or property (or properties) are deemed to constitute a business.

~~The fundamental accounting issues~~One financial reporting issue in exchange transactions ~~involve~~involves ~~determining the basis at which the properties exchanged should be recorded and~~ deciding ~~what~~ which prior financial results of the entities should be reported. ~~In this regard, Statement 141 specifies that a business combination be accounted for using the purchase method. Statement 141 speaks specifically to business combinations between nonaffiliated enterprises. When affiliated enterprises (under common control) are involved, the guidance in paragraphs D11-D13 of Statement 141 should be followed. In particular, paragraph D12 states:~~

~~When accounting for a transfer of assets or exchange of shares between entities under common control, the entity that receives the net assets or the equity interest shall initially recognize the assets and liabilities transferred at their carrying amounts in the accounts of the transferring entity at the date of transfer.~~

~~Paragraph D13 states:~~

> ~~The purchase method of accounting shall be applied if the effect of the transfer or exchange... is the acquisition of all or a part of the noncontrolling equity interests in a subsidiary.~~

~~The staff has developed administrative policies which it has followed with respect only to the financial statements of oil and gas exchange offers included in filings with the Commission and the conclusions expressed in this Topic should not be analogized to other circumstances.~~

Question 1: ~~What are the staff's general guidelines in determining the appropriate basis of accounting in an exchange transaction?~~ In Form 10-K filings with the Commission, the staff has permitted limited partnerships to omit certain of the oil and gas reserve value information and the supplemental summary of oil and gas activities disclosures required by Statement 69 (Subtopic 932-235) in some circumstances. Is it permissible to omit these disclosures from the financial statements included in an exchange offering?

Interpretive Response: ~~The staff believes the basis of accounting should be determined pursuant to the provisions of Statement 141, if it is applicable. Accordingly, where unrelated parties are involved, it is appropriate to apply purchase accounting based on the fair value of either the stock issued or the properties involved.~~

~~The following chart shows the method of accounting to be used under some relatively simple sets of circumstances.~~

Accounting-Based on Status of Issuing Entity

Condition	Public Company[9]	Non-public Company[10]
High degree of common ownership or common control between issuing corporation and offerees[11]	Purchase accounting based on fair value of stock[12]	Entities under common control - carry-over basis
All other, i.e., without common ownership or control	Purchase accounting based on fair value of stock	Purchase accounting based on fair value of properties

9 Issuing corporation is an existing public company before the exchange offer with an established market for its stock (includes situations involving use of a shell company established by a public company).

10 Issuing corporation is not public prior to the exchange offer and thus has no established market for its stock.

11 Common control ordinarily exists where the issuing corporation acts as general partner for the offeree partnership(s). Where all the following conditions apply, common control will be considered to exist between the issuing corporation and the offerees even though the issuer does not exercise the same legal powers as a general partner:
1. The issuer or its survivor initially acquired the property for exploration and development and
2. Other investors were of a passive nature, solicited to provide financing with the hope of a return on their investment, and
3. The issuer or its survivor has continued to exercise day-to-day managerial control.

12 In rare instances, such as when the property interest owners accepting the exchange offer acquire a majority of the voting shares of the company emerging from the exchange transaction, reorganization accounting may be considered appropriate. In such cases, the particular facts and circumstances should be reviewed with the Commission staff.

~~This chart reflects the staff's view that purchase accounting is generally appropriate except in situations where the principles for transactions involving common control apply. When a non-public entity acts as offeror to a group of related entities, the transaction is essentially a reorganization, and thus there is no basis for a change in the cost basis of the properties involved. If an existing public company (with an established market for its stock) has common ownership or control with the offerees, and the offerees acquire a majority interest in the emerging company, a question may arise as to whether the transaction is a reorganization.~~ No. Normally full disclosures of reserve data and related information are required. The exemptions previously allowed relate only to partnerships where value-oriented data are otherwise available to the limited partners pursuant to the partnership agreement. The staff has previously stated that it will require all of the required disclosures for partnerships which are the subject of exchange offers. FN13 These disclosures may, however, be presented on a combined basis if the entities are under common control.

The staff believes that the financial statements in an exchange offer registration statement should provide sufficient historical reserve quantity and value-based disclosures to enable offerees and secondary market public investors to evaluate the effect of the exchange proposal. Accordingly, in all cases, it will be necessary to present information as of the latest year-end on reserve quantities and the future net revenues associated with such quantities. In certain circumstances, where the exchange is accounted for using the acquisition method of accounting, the staff will consider, on a case-by-case basis, granting exemptions from (i) the disclosure requirements for year-to-year reconciliations of reserve quantities, and (ii) the requirements for a summary of oil and gas producing activities and a summary of changes in the net present value of reserves. For instance, the staff may consider requests for exemptions in cases where the properties acquired in the exchange transaction are fully explored and developed, particularly if the management of the emerging company has not been involved in the exploration and development of such properties.

FN13 See SAB 40, Topic 12.A.3.c (see paragraph 932-235-S99-1).

Question 2: ~~In some situations, a non-public issuer may be affiliated with some but not all of the offerees. Assuming the nonaffiliated offerees are not deemed "co-promoters" of the new entity, how should such a transaction be accounted for?~~If the exchange company will use the full cost method of accounting, does the full cost ceiling limitation apply as of the date of the financial statements reflecting the exchange?

Interpretive Response: ~~The property interests acquired from affiliated and nonaffiliated parties should each be accounted for as though acquired in separate exchange offer transactions. Thus in some circumstances, it may be necessary to record the interests owned by affiliated persons at predecessor cost while recording the interests of nonaffiliated persons as a purchase.~~ Yes. The full cost ceiling limitation on costs capitalized does apply. However, as discussed under Topic 12.D.3 (Subtopic 932-360), the Commission has stated that in unusual circumstances, registrants may request an exemption if as a result of a major purchase, a write-down would be required even though it can be demonstrated that the fair value of the properties clearly exceeds the unamortized costs.

~~Example: Facts-D Company (a non-public company) forms a shell, E Company, to become its successor and to sponsor an exchange offer. E makes the exchange offer to four entities: A, B, C and D. A and B are unaffiliated; C is a limited partnership sponsored by D. The shareholders of D will become the principal or controlling shareholders of E.~~

~~Basis of Accounting-Since there is no market for E's stock, it should record the properties received from C and from D at their predecessor cost. The properties received from A and B should be recorded at their fair market value.~~

Question 3: How should "common control accounting" be applied to the specific assets and liabilities of the new exchange company?

Interpretive Response: Consistent with SAB Topic 12.C.2 (Subtopic 932-10), ~~Under~~under "common control accounting" the various accounting methods followed by the offeree entities should be conformed to the methods adopted by the new exchange company. It is not appropriate to combine assets and liabilities accounted for on different bases. Accordingly, ~~as in the case of any merger between oil and gas companies,~~ all of the oil and gas properties of the new entity must be accounted for on the same basis (either full cost or successful efforts) applied retroactively.

Question 4: ~~In Form 10-K filings with the Commission, the staff has permitted limited partnerships to omit certain of the oil and gas reserve data disclosures required by Statement 69 in some circumstances. Is it permissible to omit these disclosures from the financial statements included~~What pro forma financial information is required in an exchange offering?

Interpretive Response: ~~No. Normally full disclosures of reserve data and related information are required. The exemptions previously allowed relate only to partnerships where value-oriented data are otherwise available to the limited partners pursuant to the partnership agreement. The staff has previously stated that it will require all of the required disclosures for partnerships which are the subject of merger or exchange offers. FN13 These disclosures may, however, be presented on a combined basis.~~

~~FN13 See SAB Topic 12.A.3.c.~~

~~The staff believes that the financial statements in an exchange offer registration statement should provide sufficient historical reserve quantity and value-based disclosures to enable offerees and secondary market public investors to evaluate the effect of the exchange proposal. Accordingly, in all cases, it will be necessary to present information as of the latest year-end on reserve quantities and the future net revenues associated with such quantities. In certain circumstances, where the exchange is accounted for as a purchase, the staff will consider, on a case-by-case basis, granting exemptions from (i) the disclosure requirements for year-to-year reconciliations of reserve quantities, and (ii) the requirements for a summary of oil and gas producing activities and a summary of changes in the net present value of reserves. For instance, the staff may consider requests for exemptions in cases where the properties acquired in the exchange transaction are fully explored and developed, particularly if the management of the emerging company has not been involved in the exploration and development of such properties.~~The requirements for pro forma financial information in exchange offer filings are the same as in any other filings with the Commission and are detailed in Article 11 of Regulation S-X. FN14 Rule 11-02(b) specifies the presentation requirements, including periods presented and types of adjustments to be made. The general criteria of Rule 11-02(b)(6) are that pro forma adjustments should give effect to events that are (i) directly attributable to the transaction, (ii) expected to have a continuing impact on the registrant, and (iii) factually supportable. In the case of an exchange offer, such adjustments typically are made to:

(1) Show varying levels of acceptance of the offer.

(2) Conform the accounting methods used in the historical financial statements to those to be applied by the new entity.

(3) Recompute the depreciation, depletion and amortization charges, in cases where the new entity will use full-cost accounting, on a combined basis. If this computation is not practicable, and the exchange offer is accounted for as a transaction among entities under common control,

historical depreciation, depletion and amortization provisions may be aggregated, with appropriate disclosure.

(4) Reflect the acquisition in the pro forma statements where the exchange offer is accounted for using the acquisition method of accounting, including depreciation, depletion and amortization based on the measurement guidance in Statement 141(R) (Topic 805).

(5) Provide pro forma reserve information comparable to the disclosures required by paragraphs 10 through 17 and 30 through 34 of Statement 69 (Subtopic 932-235).

(6) Reflect significant changes, if any, in levels of operations (revenues or costs), or in income tax status and to reflect debt incurred in connection with the transaction.

In addition, the depreciation, depletion and amortization rate which will apply for the initial period subsequent to consummation of the exchange offer should be disclosed.

FN14 As announced in Financial Reporting Release No. 2 (July 9, 1982).

~~Question 5: Assume an exchange transaction is to be accounted for as a purchase and recorded at the fair value of the properties. If the exchange company will use the full cost method of accounting, does the full cost ceiling limitation apply as of the date of the financial statements reflecting the exchange?~~

~~Interpretive Response: Yes. The full cost ceiling limitation on costs capitalized does apply. However, as discussed under Topic 12.D.3, the Commission has stated that in unusual circumstances, registrants may request an exemption if as a result of a major purchase, a write-down would be required even though it can be demonstrated that the fair value of the properties clearly exceeds the unamortized costs.~~

~~Question 6: What pro forma financial information is required in an exchange offer filing?~~

~~Interpretive Response: The requirements for pro forma financial information in exchange offer filings are the same as in any other filings with the Commission and are detailed in Article 11 of Regulation S-X. FN14 Rule 11-02(b) specifies the presentation requirements, including periods presented and types of adjustments to be made. The general criteria of Rule 11-~~

~~02(b)(6) are that pro forma adjustments should give effect to events that are (i) directly attributable to the transaction, (ii) expected to have a continuing impact on the registrant and (iii) factually supportable. In the case of an exchange offer, such adjustments typically are made to:~~

~~FN14 As announced in FRR 2 (July 9, 1982).~~

~~(1) Show varying levels of acceptance of the offer.~~

~~(2) Conform the accounting methods used in the historical financial statements to those to be applied by the new entity.~~

~~(3) Recompute the depreciation, depletion and amortization charges, in cases where the new entity will use full-cost accounting, on a combined basis. If this computation is not practicable, and the exchange offer is accounted for as a reorganization, historical depreciation, depletion and amortization provisions may be aggregated, with appropriate disclosure.~~

~~(4) Reflect purchase cost in the pro forma statements (where the exchange offer is accounted for on the purchase basis), including depreciation, depletion and amortization based on the purchase cost.~~

~~(5) Provide pro forma reserve information.~~

~~(6) Reflect significant changes, if any, in levels of operations (revenues or costs), or in income tax status and to reflect debt incurred in connection with the transaction.~~

~~In addition, the depreciation, depletion and amortization rate which will apply for the initial period subsequent to consummation of the exchange offer should be disclosed.~~

Question 5~~7~~: Are there conditions under which the presentation of other than full historical financial statements would be acceptable?

Interpretive Response: Generally, full historical financial statements as specified in Rules 3-01 and 3-02 of Regulations S-X are considered necessary to enable offerees and secondary market investors to evaluate the transaction. Where securities are being registered to offer to the security holders (including limited partners and other ownership interests) of the businesses to be acquired, such financial statements are normally required pursuant to Rule 3-05 of Regulation S-X, either individually for each entity or, where appropriate, separately for the offeror and on a combined basis for other entities, generally excluding corporations. However, certain exceptions may apply as explained in the outline below:

A. ~~Purchase~~Acquisition Method Accounting.

1. If the registrant can demonstrate that full historical financial statements of the offeree partnerships are not reasonably available, the staff may permit presentation of audited Statements of Combined Gross Revenues and Direct Lease Operating Expenses for all years for which an income statement would otherwise be required. In these circumstances, the registrant should also disclose in an unaudited footnote the amounts of total exploration and development costs, and general and administrative expenses along with the reasons why presentation of full historical financial statements is not practicable.

2.The staff will consider requests to waive the requirement for prior year financial statements of the offeree partnerships and instead allow presentation of only the latest fiscal year and interim period, if the registrant can demonstrate that the prior years' data would not be meaningful because the offeree partnerships had no material quantity of production.

B. Common Control Accounting.

The staff would expect the full historical financial statements as specified in Rules 3-01 and 3-02 of Regulation S-X would be included in the registration statement for exchange offers accounted for as reorganizations, including all required supplemental reserve information. The presentation of individual or combined financial statements would depend on the circumstances of the particular exchange offer.

Registrants are also reminded that wherever historical results are presented, it may be appropriate to explain the reasons why historical costs are not necessarily indicative of future expenditures.

11. Based on the issuance of SAB 112, supersede paragraph 942-805-S99-1 with no link to a transition paragraph, as follows:

~~> SEC Staff Guidance~~

~~> > Staff Accounting Bulletins~~

~~> > > SAB Topic 2.A.5, Adjustments to Allowance for Loan Losses in Connection with Business Combinations~~

942-805-S99-1 Paragraph superseded by Accounting Standards Update No. 2010-22.~~The following is the text of SAB Topic 2.A.5, Adjustments to Allowance for Loan Losses in Connection with Business Combinations.~~

~~Facts: Bank A acquires Bank B in a business combination.~~

~~Question: Are there circumstances in which it is appropriate for Bank A, in assigning acquisition cost to the loan receivables acquired from Bank B, to adjust Bank B's carrying value for those loans not only to reflect appropriate current interest rates, but also to reflect a different estimate of uncollectibility? FN1~~

~~FN1 Under Statement 141, the guidelines for allocating acquisition cost to receivables is "at present values of amounts to be received determined at appropriate current interest rates, less allowances for uncollectibility and collection costs, if necessary."~~

~~Interpretive Response: Needed changes in allowances for loan losses are ordinarily to be made through provisions for loan losses rather than through purchase accounting adjustments. Except in the limited circumstances discussed below, where Bank A has plans for ultimate recovery of loans acquired from Bank B that are demonstrably different from plans that had served as the basis for Bank B's estimate of loan losses, purchase accounting adjustments reflecting different estimates of uncollectibility may raise questions from the staff as to: (a) the reasonableness of the preacquisition allowance for loan losses recorded by Bank B, or (b) whether the adjustments will have a distortive effect on current or future period financial statements of Bank A. Similar questions may be raised by the staff regarding significant changes in allowances for loan losses that are recorded by a bank shortly before it is acquired.~~

~~Estimation of probable loan losses involves judgment, and Banks A and B may differ in their systematic approaches to such estimation. Nevertheless, assuming that appropriate methodology (i. e., giving due consideration to all relevant facts and circumstances affecting collectibility) is followed by each bank, the staff believes that each bank's estimate of the uncollectible portion of Bank B's loan portfolio should fall within a range of acceptability. That is,~~

~~the staff believes that the uncollectible portion of Bank B's loans as estimated separately by the two banks ordinarily should not be different by an amount that is material to the financial statements of Bank B and, therefore, an adjustment to the net carrying value of Bank B's loan portfolio at the acquisition date to reflect a different estimate of uncollectibility ordinarily would be unnecessary and inappropriate.~~

~~However, a purchase accounting adjustment to reflect a different estimate of uncollectibility may be appropriate where Bank A has plans regarding ultimate recovery of certain acquired loans demonstrably different from the plans that had served as the basis for Bank B's estimation of losses on those loans. FN2 In such circumstances, Bank B's estimate of uncollectibility for those certain loans may be largely or entirely irrelevant for purposes of determining the net carrying value at which those loans should be recorded by Bank A. For example, if Bank B had intended to hold certain loans to maturity but Bank A plans to sell them, the acquisition cost allocated to those loans should equal the value that currently could be obtained for them in a sale. FN3 In that case, Bank A would report those loans as assets held for sale rather than as part of its loan portfolio, and would report them in postacquisition periods at the lower of cost or market value until sold.~~

~~FN2 A bank's plans for recovering the net carrying value of certain individual loans or groups of loans may differ from its plans regarding other loans. The plan for recovering the net carrying value of a loan might be, for example, (a) holding the loan to maturity, (b) selling it, or (c) foreclosing on the collateral underlying the loan. The assigned value of loans should be based on the plan for recovery.~~

~~FN3 It is not acceptable to recognize losses on loans that are due to concerns as to ultimate collectibility through a purchase accounting adjustment, nor is it acceptable to report such losses as "loss on sale." An excess of carrying value of Bank B's loans over their market value at the acquisition date that is due to concerns as to ultimate collectibility should have been recognized by Bank B through its provision for loan losses.~~

~~The staff does not intend to suggest that an acquiring bank should record acquired loans at an amount that reflects an unreasonable estimate of uncollectibility. If Bank B's financial statements as of the acquisition date are not fairly stated in accordance with generally accepted accounting principles because of an unreasonable allowance for loan losses, that allowance for loan losses should not serve as a basis for recording the acquired loans. Rather, Bank B's preacquisition financial statements should be restated to~~

~~reflect an appropriate allowance, with the resultant adjustment being applied to the restated preacquisition income statement of Bank B for the period(s) in which the events or changes in conditions that gave rise to the needed change in the allowance occurred.~~

12. Based on external comments received, supersede paragraph 946-320-S99-15 with no link to a transition paragraph, as follows:

~~**> > > > > .e. Exhibit**~~

946-320-S99-15 Paragraph superseded by Accounting Standards Update No. 2010-22.~~The following is the text of CFRR 404.03.e. Exhibit.~~

~~The following language in a "subject to" accountant's opinion was deemed to be acceptable to the Commission in the circumstances indicated below. A letter from the Chief Accountant to the Chairman of the Committee on Investment Companies of the AICPA acknowledging the acceptance of such language was communicated in ASR 118.~~

~~ASR 118:~~

~~The Commission has considered the suggestions of the Committee on Investment Companies of the AICPA with particular reference to the circumstances in which "subject to" opinion would be appropriate. This will advise you that the "subject to" form of qualified opinion may be used when an investment company's portfolio includes a significant amount represented by securities for which market quotations are not readily available and when the auditor is satisfied that the procedures followed and the information obtained are adequate to enable the board of directors to value the securities but is unable to form an opinion as to the fairness of the specific values determined in good faith b the board of directors. As developed in our conversations, an opinion in the following form, introduced b the standard scope paragraph, in the interests of uniformity of language should be used:~~

> ~~As discussed more fully in Note 1 to the financial statements, securities amounting to $_______ (____% of net assets) have been valued at fair value as determined by the Board of Directors. We have reviewed the procedures applied by the directors in valuing such securities and have inspected underlying documentation; while in the circumstances the procedures appear to be reasonable and the documentation appropriate, determination of fair values involves subjective judgment which is not susceptible to substantiation by auditing procedures.~~

~~In our opinion, subject to the effect on the financial statements of the valuation of securities determined by the Board of Directors as described in the preceding paragraph, the (financial statements) present fairly...~~

13. Amend paragraph 270-10-S00-1 by adding the following item to the table as follows:

270-10-S00-1 The following table identifies changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
270-10-S99-2	Amended	2010-22	08/19/2010

14. Add paragraph 340-10-S00-1 as follows:

<u>**340-10-S00-1** The following table identifies changes made to this Subtopic.</u>

Paragraph Number	Action	Accounting Standards Update	Date
340-10-S99-2	Amended	2010-22	08/19/2010

15. Amend paragraph 505-10-S00-1 by adding the following item to the table as follows:

<u>**505-10-S00-1** The following table identifies changes made to this Subtopic.</u>

Paragraph Number	Action	Accounting Standards Update	Date
505-10-S99-6	Superseded	2010-22	08/19/2010

16. Add paragraph 605-40-S00-1 as follows:

<u>**605-40-S00-1** The following table identifies changes made to this Subtopic.</u>

Paragraph Number	Action	Accounting Standards Update	Date
605-40-S99-1	Superseded	2010-22	08/19/2010

17. Amend paragraph 805-10-S00-1 by adding the following item to the table as follows:

805-10-S00-1 The following table identifies changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
805-10-S99-2	Amended	2010-22	08/19/2010

18. Amend paragraph 805-20-S00-1 by adding the following item to the table as follows:

805-20-S00-1 The following table identifies changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
805-20-S99-1	Superseded	2010-22	08/19/2010
805-20-S99-2	Superseded	2010-22	08/19/2010

19. Amend paragraph 805-50-S00-1 by adding the following item to the table as follows:

805-50-S00-1 The following table identifies changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
805-50-S99-1	Amended	2010-22	08/19/2010

20. Amend paragraph 810-10-S00-1 by adding the following item to the table as follows:

810-10-S00-1 The following table identifies changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
810-10-S99-5	Amended	2010-22	08/19/2010

21. Amend paragraph 932-10-S00-1 by adding the following item to the table as follows:

932-10-S00-1 The following table identifies changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
932-10-S99-2	Amended	2010-22	08/19/2010

22. Add paragraph 942-805-S00-1 as follows:

<u>**942-805-S00-1** The following table identifies changes made to this Subtopic.</u>

Paragraph Number	Action	Accounting Standards Update	Date
942-805-S99-1	Superseded	2010-22	08/19/2010

23. Add paragraph 946-320-S00-1 as follows:

946-320-S00-1 The following table identifies changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
946-320-S99-15	Superseded	2010-22	08/19/2010

Amendments to the XBRL Taxonomy

The following elements or modifications to existing elements are proposed additions to the XBRL U.S. GAAP Financial Reporting Taxonomy. They reflect the amendments to the disclosure and presentation requirements of the *FASB Accounting Standards Codification™* that would be made as amendments to the *FASB Accounting Standards Codification™* and would be used in association (tagged) with the appropriate reported values in the SEC filer XBRL exhibit. (Elements that currently exist in the 2009 taxonomy are marked with an asterisk* and have been **bolded**. If an existing element was modified, it has been marked to reflect any changes.)

Individuals and organizations commenting on the amendments in this Update should consider the usefulness, appropriateness, and completeness of these elements for entities required to include an XBRL exhibit with their SEC filings. Commenters also should consider the context of the elements in the current XBRL U.S. GAAP Financial Reporting Taxonomy.

Standard Label[†]	Definition	Codification Reference
Consolidation, Subsidiary Stock Issuances, Policy*	Describes an entity's accounting policy regarding its income statement treatment in consolidation for issuances of stock by a subsidiary.	235-10-50-3 ~~505-10-S99-6~~
Gain (Loss) on Sale of Previously Unissued Stock by Subsidiary or Equity Investee, Nonoperating Income*	The profit or loss on sales of previously unissued stock by subsidiaries or equity investees made to investors outside the consolidated group that is not reported as operating income. Represents the difference in the parent company's carrying amount of the equity interest in the subsidiary or equity investee immediately before and after the transaction.	230-10-45-28(b) ~~505-10-S99-6~~ 942-225-S99-1 (SX 210.9-04.13(g))
Gain (Loss) on Sale of	Difference in the parent company's carrying amount of the equity interest	~~505-10-S99-6~~

[†]The Standard Label and the Element Name are the same (except that the Element Name does not include spaces). If they are different, the Element Name is shown in *italics* after the Standard Label.

Standard Label†	Definition	Codification Reference
Subsidiary's Stock [Member]*	in the subsidiary immediately before and after the transaction.	
Sale of Stock, Consideration Received Per Transaction*	Dollar value assigned to consideration received by subsidiary or equity investee in exchange for shares of stock issued or sold. Include amount of cash received, fair value of noncash assets received, and fair value of liabilities assumed by the investor.	~~505-10-S99-6~~
Sale of Stock, Consideration Received on Transaction*	Cash received on stock transaction after deduction of issuance costs.	~~505-10-S99-6~~
Sale of Stock, Deferred Income Tax Provision on Gain (Loss) Recognized*	The disclosure of the statement as to whether a provision for deferred income taxes has been provided for gains recognized on the stock transaction.	~~505-10-S99-6~~
Sale of Stock, Description of Transaction*	Description of stock transaction which may include details of the offering (IPO, private placement), a description of the stock sold, percentage of subsidiary's or equity investee's stock sold, a description of the investors and whether the stock was issued in a business combination.	~~505-10-S99-6~~
Sale of Stock, Name of Transaction [Domain]*	Name of stock transaction which may include details of the offering (IPO, private placement), a description of the stock sold, percentage of subsidiary's or equity investee's stock sold, a description of the investors and whether the stock was issued in a business combination.	~~505-10-S99-6~~
Sale of Stock, Nature of Consideration	Description of consideration received by the subsidiary or equity investee in exchange for shares of stock issued	~~505-10-S99-6~~

Standard Label†	Definition	Codification Reference
Received Per Transaction*	or sold.	
Sale of Stock, Nature of Operations*	Nature of the subsidiary's or equity investee's operation that issued its own stock.	~~505-10-S99-6~~
Sale of Stock, Number of Shares Issued in Transaction*	The number of shares issued or sold by the subsidiary or equity method investee per stock transaction.	~~505-10-S99-6~~
Sale of Stock, Percentage of Ownership after Transaction*	Percentage of subsidiary's or equity investee's stock owned by parent company after stock transaction.	~~505-10-S99-6~~
Sale of Stock, Percentage of Ownership before Transaction*	Percentage of subsidiary's or equity investee's stock owned by parent company before stock transaction.	~~505-10-S99-6~~
Sale of Stock, Price Per Share*	The dollar amount received by subsidiary or equity investee for each share of common stock issued or sold in the stock transaction.	~~505-10-S99-6~~
Sale of Stock, Reason for Omitting Deferred Income Tax Provision on Gain (Loss) Recognized*	An explanation as to the reasons for the omission of deferred income taxes related to the gain (loss) recognized on the stock transaction.	~~505-10-S99-6~~
Sale of Stock, Subsidiary*	Name of subsidiary or equity investee that issued its own stock.	~~505-10-S99-6~~
Sale of Stock, Transaction Date*	Date subsidiary or equity investee issued or sold stock.	~~505-10-S99-6~~
Schedule of Sale of Stock by Subsidiary or Equity Method Investee Disclosure [Text	Schedule of sales of stock or previously unissued stock made by subsidiary or equity method investee to investors outside the consolidated group. This includes stock issued in a business combination in exchange for	~~505-10-S99-6~~

Standard Label†	**Definition**	**Codification Reference**
Block]*	shares of an acquired entity.	
Schedule of Subsidiary or Equity Method Investee [Table]*	Schedule of subsidiary's sales of previously unissued stock made to investors outside the consolidated group. This includes stock issued in a business combination in exchange for shares of an acquired entity.	~~505-10-S99-6~~
Subsidiary or Equity Method Investee, Cumulative Number of Shares Issued for All Transactions*	Cumulative number of shares issued or sold by the subsidiary or equity method investee on all stock transactions.	~~505-10-S99-6~~
Subsidiary or Equity Method Investee, Cumulative Percentage Ownership after All Transactions*	Percentage of subsidiary's or equity method investee's stock owned by parent immediately after all stock transactions.	~~505-10-S99-6~~
Subsidiary or Equity Method Investee, Cumulative Proceeds Received on All Transactions*	Cumulative amount of cash and other consideration received by subsidiary or equity method investee in exchange for shares or stock issued or sold. Include amounts of cash received, fair value of non-cash assets received, fair value of liabilities assumed, and fair value of any other forms of consideration.	~~505-10-S99-6~~
Subsidiary or Equity Method Investee, Deferred Income Tax Provision on Cumulative Gain (Loss) Recognized*	The amount provided for deferred income taxes in relation to any Gain or Loss recognized in income of the entity resulting from the issuance of shares by a subsidiary or equity method investee.	~~505-10-S99-6~~
Subsidiary or	Description of the major products or	~~505-10-S99-6~~

Standard Label†	Definition	Codification Reference
Equity Method Investee, Nature of Operations*	services that a subsidiary or equity investee sells or provides and its principal markets, including locations of those markets.	
Subsidiary or Equity Method Investee, Price-Per-Share*	Price-per-share of common or preferred stock issued or sold by the subsidiary or equity method investee.	~~505-10-S99-6~~
Subsidiary or Equity Method Investee, Reason for Omitting Deferred Income Tax Provision on Cumulative Gain (Loss) Recognized*	If no provision for deferred income taxes in relation to any Gain or Loss recognized in income of the entity resulting from the issuance of shares by a subsidiary or equity method investee has been recorded, this item represents an explanation as to the reasons for the omission of such deferred income taxes.	~~505-10-S99-6~~
Subsidiary or Equity Method Investee, Sale of Stock by Subsidiary or Equity Investee [Table]*	A table is a schedule used to present multi dimensional data and contains both an axis and line items.	~~505-10-S99-6~~
Subsidiary, Sale of Stock [Axis]*	The axis of a table defines the relationship between the domain members or categories in the table and the line items or concepts that complete the table.	~~505-10-S99-6~~
Deferred Gain on Sale of Property*	Amount of gain on the sale of property that does not qualify for gain recognition as of the balance sheet date.	~~605-40-S99-1~~
Disposal Group, Deferred Gain on Disposal*	The excess amount received or due over net assets in a transaction accounted for as a divestiture where a subsidiary, business or operating assets are "sold" by the entity to a newly formed, thinly capitalized,	~~605-40-S99-1~~

Standard Label†	Definition	Codification Reference
	highly leveraged buyer. This gain is not yet recognized and is disclosed on the balance sheet as an offset against the carrying amount of the securities received.	
Equity Method Investment, Deferred Gain on Sale*	This element represents disclosure of the amount of gain which has been deferred as the result of the sale of a business or operating assets to a highly leveraged entity which deferred gain has been reflected in the accompanying statement of financial position as reduction from the related asset.	~~605-40-S99-1~~
Equity Method Investments Disclosure [Text Block]*	Equity investment disclosure, or group of investments for which combined disclosure is appropriate, including: (a) the name of each investee and percentage of ownership of common stock, (b) accounting policies for investments in common stock, (c) difference between the amount at which the investment is carried and the amount of underlying equity in net assets and the accounting treatment of the difference, (d) the total fair value of each identified investment for which a market value is available, (e) summarized information as to assets, liabilities, and results of operations of the investees (for investments in unconsolidated subsidiaries, common stock of joint ventures, or other investments using the equity method), and (f) material effects of possible conversions, exercises, or contingent issuances of the investee. Other disclosures include (a) the names of any investee in which the investor owns 20 percent or more of the voting stock and investment is not accounted for using the equity method, and the	210-10-S99-1 323-10-35-32 323-10-35-35 323-10-50-3 ~~605-40-S99-1~~

Standard Label†	Definition	Codification Reference
	reasons why not, and (b) the names of any investee in which the investor owns less than 20% of the voting stock and the investment is accounted for using the equity method, and the reasons why it is.	
Liabilities of Business Transferred under Contractual Arrangement, Current*	The current carrying amount, due within one year or one operating cycle, if longer, of liabilities resulting from the transfer of a business segment under contractual arrangement where the transferor maintains certain risks, obligations or liabilities.	210-10-S99-1 ~~810-10-S99-5~~
Disposal Group, Assets of Business Transferred under Contractual Arrangement*	In a transaction not treated as a divestiture for accounting purposes and in which the disposed operation is not consolidated for accounting purposes, the aggregate amount of the disposed assets that are segregated in the balance sheet.	~~810-10-S99-5~~
Disposal Group, Liabilities of Business Transferred under Contractual Arrangement*	In a transaction not treated as a divestiture for accounting purposes and in which the disposed operation is not consolidated for accounting purposes, the aggregate amount of the disposed liabilities that are segregated in the balance sheet.	~~810-10-S99-5~~
Loans and Leases Receivable, Allowance*	The allowance for loan and lease losses represents the reserve to cover probable credit losses related to specifically identified loans and leases, as well as probable credit losses inherent in the remainder of the loan portfolio as of the balance sheet date. For banks, include currently required allocated transfer risk reserves. Include carryover of or adjustments to the allowance for loan losses in connection with business combinations determined to be	310-30-50-2(b)(1)(ii) ~~942-805-S99-1~~

Standard Label†	Definition	Codification Reference
	appropriate.	