FINANCIAL ACCOUNTING SERIES

Accounting Standards Update

No. 2013-05
March 2013

Foreign Currency Matters (Topic 830)

Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity

a consensus of the FASB Emerging Issues Task Force

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board
of the Financial Accounting Foundation

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FINANCIAL ACCOUNTING SERIES (ISSN 0885-9051) is published quarterly by the Financial Accounting Foundation. Periodicals postage paid at Norwalk, CT and at additional mailing offices. The full subscription rate is $242 per year. POSTMASTER: Send address changes to Financial Accounting Standards Board, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116. | **No. 382**

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CONTENTS

Summary

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

The objective of the amendments in this Update is to resolve the diversity in practice about whether Subtopic 810-10, Consolidation—Overall, or Subtopic 830-30, Foreign Currency Matters—Translation of Financial Statements, applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment *in* a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) *within* a foreign entity.

Subtopic 810-10, as amended by Accounting Standards Update No. 2010-02, *Consolidation (Topic 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary—a Scope Clarification,* requires that a parent deconsolidate a subsidiary or derecognize a group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) if the parent ceases to have a controlling financial interest in that group of assets. The derecognition guidance in Subtopic 810-10 supports releasing the cumulative translation adjustment into net income upon the loss of a controlling financial interest in such a subsidiary or group of assets. That guidance does not distinguish between sales or transfers pertaining to an investment *in* a foreign entity (as defined in Topic 830) and those pertaining to a subsidiary or group of assets *within* a foreign entity. Subtopic 830-30, however, provides for the release of the cumulative translation adjustment into net income only if a sale or transfer represents a sale or complete or substantially complete liquidation of an investment *in* a foreign entity.

In addition, the amendments in this Update resolve the diversity in practice for the treatment of business combinations achieved in stages (sometimes also referred to as step acquisitions) involving a foreign entity. Some entities view step acquisitions as being composed of two events, the disposition of an equity method investment and simultaneous acquisition of a controlling financial interest. Those entities generally release the cumulative translation adjustment related to the equity method investment. Those entities that view step acquisitions as being composed of a single event (increasing an investment) generally do not release the cumulative translation adjustment in practice.

Who Is Affected by the Amendments in This Update?

The amendments in this Update affect entities that cease to hold a controlling financial interest (as described in Subtopic 810-10) in a subsidiary or group of assets *within* a foreign entity when (1) the subsidiary or group of assets is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) and (2) there is a cumulative translation adjustment balance associated with that foreign entity. The amendments also affect entities that lose a controlling financial interest in an investment *in* a foreign entity (by sale or other transfer event) and those that acquire a business in stages (sometimes also referred to as a step acquisition) by increasing an investment *in* a foreign entity from one accounted for under the equity method to one accounted for as a consolidated investment.

What Are the Main Provisions?

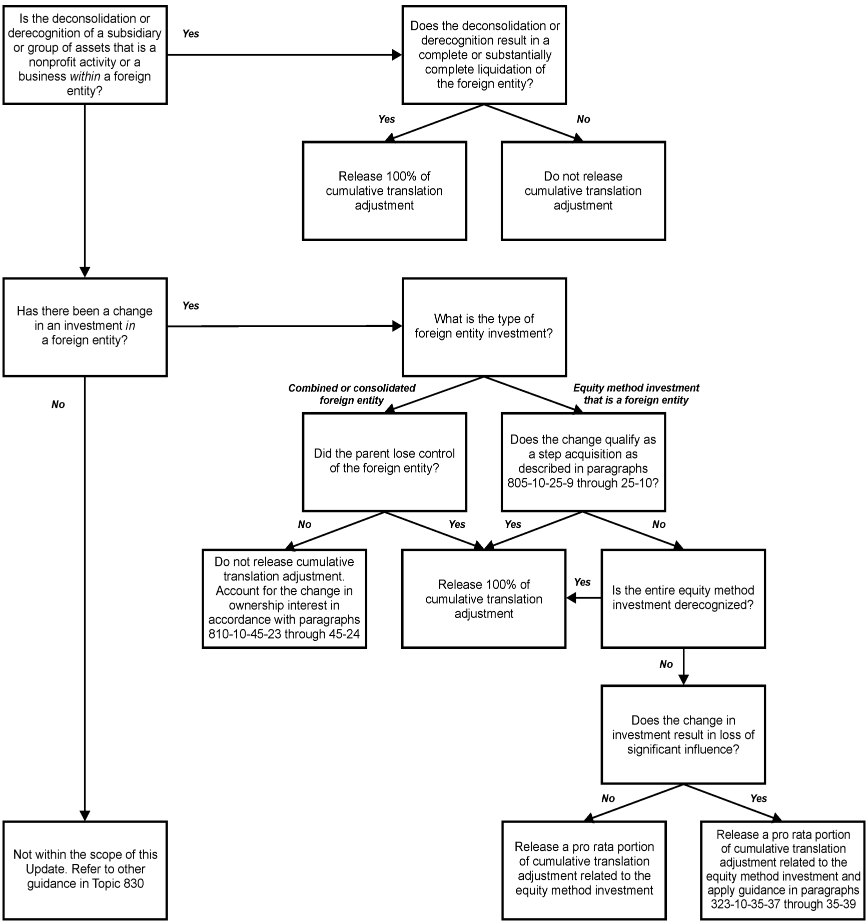
When a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) *within* a foreign entity, the parent is required to apply the guidance in Subtopic 830-30 to release any related cumulative translation adjustment into net income. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided.

For an equity method investment that is a foreign entity, the partial sale guidance in Section 830-30-40 still applies. As such, a pro rata portion of the cumulative translation adjustment should be released into net income upon a partial sale of such an equity method investment. However, this treatment does not apply to an equity method investment that is not a foreign entity. In those instances, the cumulative translation adjustment is released into net income only if the partial sale represents a complete or substantially complete liquidation of the foreign entity that contains the equity method investment.

Additionally, the amendments in this Update clarify that the sale of an investment *in* a foreign entity includes both (1) events that result in the loss of a controlling financial interest in a foreign entity (that is, irrespective of any retained investment) and (2) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date (sometimes also referred to as a step acquisition). Accordingly, the cumulative translation adjustment should be released into net income upon the occurrence of those events.

The following flow chart illustrates this Update's amendments to the cumulative translation adjustment derecognition guidance in Subtopic 830-30 for the derecognition of certain subsidiaries or groups of assets within a foreign entity and for changes in an investment in a foreign entity. The flowchart is not intended to illustrate all derecognition events that could be within the scope of Subtopic 830-30.

Release of Cumulative Translation Adjustment



How Do the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

The amendments in this Update clarify the applicable guidance for the release of the cumulative translation adjustment under current U.S. GAAP. The Board concluded that the amendments resolve the diversity in practice about whether the guidance in Subtopic 830-30 applies to the release of the cumulative translation adjustment when an entity ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) *within* a foreign entity. Likewise, the Board concluded that the amendments resolve the diversity in practice about whether Subtopic 830-30 applies to the release of the cumulative translation adjustment when there is a loss of a controlling financial interest *in* a foreign entity or a step acquisition involving an equity method investment that is a foreign entity. The Board also concluded that the amendments improve current U.S. GAAP by emphasizing that the accounting for the release of the cumulative translation adjustment into net income for sales or transfers of a controlling financial interest *within* a foreign entity is the same irrespective of whether the sale or transfer is of a subsidiary or a group of assets (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) that is a nonprofit activity or business.

When Will the Amendments Be Effective?

The amendments in this Update are effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. For nonpublic entities the amendments in this Update are effective prospectively for the first annual period beginning after December 15, 2014, and interim and annual periods thereafter. The amendments should be applied prospectively to derecognition events occurring after the effective date. Prior periods should not be adjusted. Early adoption is permitted. If an entity elects to early adopt the amendments, it should apply them as of the beginning of the entity's fiscal year of adoption.

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

The amendments eliminate certain existing differences in accounting and reporting between U.S. GAAP and IFRS. The guidance in FASB Statement No. 52, *Foreign Currency Translation* (codified in Topic 830), was not developed jointly with the IASB. However, similar to this Update, the IASB's foreign currency translation guidance in IAS 21, *The Effects of Changes in Foreign Exchange*

Rates, addresses disposals and partial disposals of a foreign operation. IAS 21 requires that the entire cumulative amount of exchange differences relating to a foreign operation be reclassified from equity to profit or loss upon disposal of a reporting entity's entire interest in the foreign operation or, for partial disposals, when the partial disposal involves the loss of the control of a subsidiary that includes a foreign operation, even if the entity retains an interest in the former subsidiary after the partial disposal, among other circumstances. An entity may dispose or partially dispose of its interest in a foreign operation through sale, liquidation, repayment of share capital, or abandonment of all, or part of, that entity.

IFRS 3, *Business Combinations,* provides guidance for applying the acquisition method in a business combination achieved in stages. IFRS 3 requires the reclassification of the changes in value of the acquirer's equity interest that had been previously recognized in other comprehensive income to profit or loss when control is obtained. That includes amounts related to the cumulative amount of the exchange differences relating to a foreign operation recognized in other comprehensive income.

Unlike this Update, IAS 21 does not contain guidance on the reclassification of the cumulative amount of exchange differences either with respect to the loss of a controlling financial interest in a group of assets (that is not a subsidiary) or with respect to the sales or transfers within a foreign entity.

Amendments to the *FASB Accounting Standards Codification*®

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–10. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is <u>underlined</u>, and deleted text is ~~struck out~~. **[Note: The definition of Foreign Entity is shown for convenience.]**

Master Glossary

Foreign Entity

An operation (for example, subsidiary, division, branch, joint venture, and so forth) whose financial statements are both:

a. Prepared in a currency other than the reporting currency of the reporting entity
b. Combined or consolidated with or accounted for on the equity basis in the financial statements of the reporting entity.

Amendments to Subtopic 220-10

2. Amend paragraph 220-10-45-16, with a link to transition paragraph 830-30-65-1, as follows:

Comprehensive Income—Overall

Other Presentation Matters

> Reclassification Adjustments

220-10-45-16 An entity shall determine reclassification adjustments for each component of other comprehensive income, except as noted in the following paragraph. The requirement for a reclassification adjustment for foreign currency translation adjustments is limited to translation gains and losses realized upon sale or upon complete or substantially complete liquidation of an investment in a foreign entity (see ~~paragraph~~ paragraphs 830-30-40-1 through 40-1A).

Amendments to Subtopic 805-10

3. Amend paragraph 805-10-25-10, with a link to transition paragraph 830-30-65-1, as follows:

Business Combinations—Overall

Recognition

> > A Business Combination Achieved in Stages

805-10-25-9 An acquirer sometimes obtains control of an acquiree in which it held an equity interest immediately before the acquisition date. For example, on December 31, 20X1, Entity A holds a 35 percent noncontrolling equity interest in Entity B. On that date, Entity A purchases an additional 40 percent interest in Entity B, which gives it control of Entity B. This Topic refers to such a transaction as a business combination achieved in stages, sometimes also referred to as a step acquisition.

805-10-25-10 In a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date **fair value** and recognize the resulting gain or loss, if any, in earnings. In prior reporting periods, the acquirer may have recognized changes in the value of its equity interest in the acquiree in other comprehensive income (for example, because the investment was classified as available for sale). If so, the amount that was recognized in other comprehensive income shall be reclassified and included in the calculation of gain or loss as of the acquisition date. If the business combination achieved in stages relates to a previously held equity method investment that is a **foreign entity**, the amount of accumulated other comprehensive income that is reclassified and included in the calculation of gain or loss shall include any foreign currency translation adjustment related to that previously held investment. For guidance on derecognizing foreign currency translation adjustments recorded in accumulated other comprehensive income, see Section 830-30-40.

Amendments to Subtopic 810-10

4. Amend paragraph 810-10-40-4 and add paragraph 810-10-40-4A, with a link to transition paragraph 830-30-65-1, as follows:

Consolidation—Overall

Derecognition

> Deconsolidation of a Subsidiary or Derecognition of a Group of Assets

810-10-40-3A The deconsolidation and derecognition guidance in this Section applies to the following:

a. A subsidiary that is a **nonprofit activity** or a business, except for either of the following:
   1. A sale of in substance real estate (for guidance on a sale of in substance real estate, see Subtopic 360-20 or 976-605)
   2. A conveyance of oil and gas mineral rights (for guidance on conveyances of oil and gas mineral rights and related transactions, see Subtopic 932-360).
b. A group of assets that is a nonprofit activity or a business, except for either of the following:
   1. A sale of in substance real estate (for guidance on a sale of in substance real estate, see Subtopic 360-20 or 976-605)
   2. A conveyance of oil and gas mineral rights (for guidance on conveyances of oil and gas mineral rights and related transactions, see Subtopic 932-360).
c. A subsidiary that is not a nonprofit activity or a business if the substance of the transaction is not addressed directly by guidance in other Topics that include, but are not limited to, all of the following:
   1. Topic 605 on revenue recognition
   2. Topic 845 on exchanges of nonmonetary assets
   3. Topic 860 on transferring and servicing financial assets
   4. Topic 932 on conveyances of mineral rights and related transactions
   5. Topic 360 or 976 on sales of in substance real estate.

810-10-40-4 A parent shall deconsolidate a subsidiary or derecognize a group of assets specified in ~~the preceding~~ paragraph <u>810-10-40-3A</u> as of the date the parent ceases to have a controlling financial interest in that subsidiary or group of assets. See paragraph 810-10-55-4A for related implementation guidance.

810-10-40-4A When a parent deconsolidates a subsidiary or derecognizes a group of assets within the scope of paragraph 810-10-40-3A, the parent relationship ceases to exist. The parent no longer controls the subsidiary's assets and liabilities or the group of assets. The parent therefore shall derecognize the assets, liabilities, and equity components related to that subsidiary or group of assets. The equity components will include any noncontrolling interest as well as amounts previously recognized in accumulated other comprehensive income. If the subsidiary or group of assets being deconsolidated or derecognized is a **foreign entity** (or represents the complete or substantially complete liquidation of the foreign entity in which it resides), then the amount of accumulated other comprehensive income that is reclassified and included in the calculation of gain or loss shall include any foreign currency translation adjustment related to that foreign entity. For guidance on derecognizing foreign currency translation adjustments recorded in accumulated other comprehensive income, see Section 830-30-40.

Amendments to Subtopic 830-30

5. Amend paragraphs 830-30-40-1 through 40-3 and add paragraph 830-30-40-1A, with a link to transition paragraph 830-30-65-1, as follows:

Foreign Currency Matters—Translation of Financial Statements

Derecognition

> Sale or Liquidation of an Investment in a Foreign Entity

830-30-40-1 Upon sale or upon complete or substantially complete liquidation of an investment in a **{add glossary link}**foreign entity**{add glossary link}**, the amount attributable to that entity and accumulated in the translation adjustment component of equity shall be both:

a. Removed from the separate component of equity
b. Reported as part of the gain or loss on sale or liquidation of the investment for the period during which the sale or liquidation occurs.

830-30-40-1A A sale shall include:

a. The loss of a controlling financial interest in an investment in a foreign entity resulting from circumstances contemplated by Subtopic 810-10 (see paragraph 810-10-55-4A for related implementation guidance)
b. An acquirer obtaining control of an acquiree in which it held an equity interest, accounted for as an equity method investment that is a foreign

entity, immediately before the acquisition date in a business combination achieved in stages (see paragraphs 805-10-25-9 through 25-10).

> > Partial Sale of Ownership Interest

830-30-40-2 If a **reporting entity** sells part of its ownership interest in an equity method investment that is~~in~~ a foreign entity, a pro rata portion of the accumulated translation adjustment component of equity attributable to that equity method investment shall be recognized in measuring the gain or loss on the sale. If the sale of part of an equity method investment that is a foreign entity results in the loss of significant influence, see paragraphs 323-10-35-37 through 35-39 for guidance on how to account for the pro rata portion of the accumulated translation adjustment component of equity attributable to the remaining investment. For guidance if an entity sells a noncontrolling interest ~~part of its ownership interest~~ in a consolidated foreign entity but still retains a controlling financial interest in the foreign entity, see paragraph 810-10-45-23 through 45-24 ~~Subtopic 810-10~~.

830-30-40-3 Although ~~A~~ partial ~~liquidation~~liquidations by a ~~subsidiary~~ parent of net assets held within a foreign entity may be considered ~~to be~~ similar to a sale of part of an ownership interest in the foreign entity if the liquidation proceeds are distributed to the parent~~. However~~, extending pro rata recognition (release of the cumulative translation adjustment into net income) to such partial liquidations would require that their substance be distinguished from ordinary dividends. Such a distinction is neither possible nor desirable. For those partial liquidations, no cumulative translation adjustment is released into net income until the criteria in paragraph 830-30-40-1 are met. ~~This paragraph is restricted to clarifying that a sale includes an investor's partial, as well as complete, disposal of its ownership interest.~~

6. Add paragraph 830-30-65-1 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2013-05, *Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity*

830-30-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2013-05, *Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity:*

a. The pending content that links to this paragraph shall be effective as follows:

1. For fiscal years, and interim periods within those years, beginning after December 15, 2013.
2. For **{add glossary link to 1st definition}nonpublic entities{add glossary link to 1st definition}**, for fiscal years beginning after December 15, 2014, and interim and annual periods thereafter.

b. The pending content that links to this paragraph shall be applied prospectively by an entity to all of the following:
   1. A sale or transfer of a subsidiary or group of assets that is a nonprofit activity or a business within the scope of paragraph 810-10-40-3A within a foreign entity after the effective date
   2. A sale of ownership interests in a foreign entity after the effective date
   3. A business combination achieved in stages after the effective date.

   Prior periods shall not be adjusted.

c. Earlier application of the pending content that links to this paragraph is permitted. If early application is elected, an entity shall apply the pending content that links to this paragraph from the beginning of an entity's fiscal year of adoption to account for the release of the cumulative translation adjustment in the same manner for all disposition and deconsolidation events and step acquisitions within that fiscal year.

d. An entity shall provide the disclosures in paragraphs 250-10-50-1 through 50-3 in the period the entity adopts the pending content that links to this paragraph.

7. Amend paragraph 220-10-00-1, by adding the following item to the table, as follows:

220-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
220-10-45-16	Amended	2013-05	03/04/2013

8. Amend paragraph 805-10-00-1, by adding the following item to the table, as follows:

805-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
805-10-25-10	Amended	2013-05	03/04/2013

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

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

Paragraph Number	Action	Accounting Standards Update	Date
810-10-40-4	Amended	2013-05	03/04/2013
810-10-40-4A	Added	2013-05	03/04/2013

10. Amend paragraph 830-30-00-1 as follows:

830-30-00-1 <u>The following table identifies the changes made to this Subtopic.</u> ~~No updates have been made to this subtopic.~~

Paragraph Number	Action	Accounting Standards Update	Date
830-30-40-1 through 40-3	Amended	2013-05	03/04/2013
830-30-40-1A	Added	2013-05	03/04/2013
830-30-65-1	Added	2013-05	03/04/2013

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

Leslie F. Seidman, *Chairman*
Daryl E. Buck
Russell G. Golden
Thomas J. Linsmeier
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

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

Background Information

BC2. Section 810-10-40 requires deconsolidation of a subsidiary and derecognition of a group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) whenever the parent ceases to hold a controlling financial interest in the subsidiary or group of assets. However, differing views in practice exist about whether the related cumulative translation adjustment should be released into net income upon the sale or transfer of such a subsidiary or group of assets within a foreign entity because, comparatively, the guidance in Section 830-30-40 requires a sale or complete or substantially complete liquidation of an investment in a foreign entity in order for the cumulative translation adjustment to be released into net income. Additionally, there are differing views as to whether Section 810-10-40 or Section 830-30-40 applies to the sale or transfer of a controlling financial interest in a foreign entity if the parent retains an investment or if the parent's equity method investment that is a foreign entity is increased to a consolidated investment in a business combination achieved in stages (also called a step acquisition).

BC3. Specifically, while Update 2010-02 expanded the scope of Subtopic 810-10 to include the loss of a controlling financial interest in a group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights), it did not amend Subtopic 830-30. Accordingly, diversity in practice exists for sales of subsidiaries and groups of assets that are nonprofit activities or businesses within a foreign entity and sales and transfers of investments in a foreign entity. Some entities apply Subtopic 810-10 and release the cumulative translation adjustment into net income upon the loss of a controlling financial interest for both events within a foreign entity and events involving an investment in a foreign entity. Other entities apply the guidance in paragraph 830-30-40-1 and release the related cumulative translation adjustment into net income only if the sale or transfer represents the sale or complete or substantially complete liquidation of the foreign entity.

BC4. At the November 3, 2011 EITF meeting, the Task Force reached a consensus-for-exposure to apply the deconsolidation and derecognition guidance (Section 810-10-40), rather than the foreign currency guidance (Section 830-30-40), for releasing the cumulative translation adjustment when a parent ceases to have a controlling financial interest in either a subsidiary or a group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. The Task Force also reached a consensus-for-exposure that the amount of cumulative translation adjustment that entities should release into net income should be determined using systematic and rational approaches that reflect an asset group's relative portion of the total cumulative translation adjustment associated with the foreign entity. Such approaches include (a) a pro rata portion of the cumulative translation adjustment attributable to the nonprofit activity or business within the scope of paragraph 810-10-40-3A based on the relative proportion of the net assets of the foreign entity at the date of disposition and (b) the cumulative translation adjustment attributable to specific assets and liabilities of the nonprofit activity or business within the scope of paragraph 810-10-40-3A within a foreign entity. The Board issued a proposed Update on December 8, 2011, with a 60-day comment period.

BC5. At the March 15, 2012 EITF meeting, the Task Force considered the feedback received from the comment letters and requested that the FASB staff perform additional analysis before affirming its consensus-for-exposure as a final consensus. Specifically, the Task Force requested that the staff perform user and preparer outreach to better understand their views on this Issue, including operational complexities. Additionally, the staff was asked to evaluate certain questions that may arise if the cumulative translation adjustment is released in accordance with the deconsolidation and derecognition guidance in Section 810-10-40.

BC6. At the June 21, 2012 EITF meeting, the Task Force reached a revised consensus-for-exposure on the basis of the FASB staff's outreach that the cumulative translation adjustment should be released into net income in accordance with Subtopic 830-30. Therefore, upon the sale or transfer of a subsidiary or group of assets that is a nonprofit activity or a business (other than the sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity, the cumulative translation adjustment should only be released into net income if such sale or transfer results in the complete or substantially complete liquidation of the foreign entity. The Task Force indicated that the revised consensus-for-exposure addressed concerns about the ability of entities to apply a systematic and rational measurement approach to allocating the cumulative translation adjustment upon losing a controlling financial interest in a group of assets that is a nonprofit activity or a business within a foreign entity. Some Task Force members were concerned that stakeholders would interpret the measurement principle to require a specific identification approach, which would be an unreasonable and operationally challenging expectation to set. Those Task Force members also were concerned that allocation would be operationally challenging because the cumulative translation adjustment is recognized at a broader unit of account (foreign entity) but releasing it would be at a more specific unit of account. The revised consensus-for-exposure also reflected the Task Force's preference for the same approach to be applied to subsidiaries and groups of assets that are nonprofit activities or businesses within a foreign entity. Additionally, the revised consensus-for-exposure was consistent with the understanding that many users do not feel strongly about when entities release the cumulative translation adjustment into net income and do not incorporate cumulative translation adjustments into their trend analyses.

BC7. At the June 21, 2012 EITF meeting, the Task Force also discussed the release of the cumulative translation adjustment upon occurrence of certain events related to an investment in a foreign entity. The Task Force reached a tentative conclusion that the cumulative translation adjustment should not be released into net income in a step acquisition but requested that the FASB staff perform additional analysis before proceeding further with discussions.

BC8. At the September 11, 2012 EITF meeting, the Task Force discussed the FASB staff's outreach and analysis on events related to an investment in a foreign entity. The outreach with practitioners indicated that most entities release the cumulative translation adjustment into net income upon the loss of a controlling financial interest in an investment in a foreign entity (irrespective of the form of any retained ownership interest) and upon a step acquisition involving an investment in a foreign entity. The outreach also confirmed that, in practice, most entities release a pro rata portion of the cumulative translation adjustment upon a partial sale of an equity method investment that is a foreign entity in accordance with paragraph 830-30-40-2. The Task Force reached a consensus-for-exposure that the entire amount of the cumulative translation adjustment should be released into net income upon the loss of a controlling financial interest in a foreign entity. Some Task Force members expressed support for this position by noting that this treatment is consistent with the view that the cumulative translation adjustment is tied to the net investment in a foreign entity. Accordingly, when the net investment in a foreign entity is deconsolidated or derecognized, and a gain or loss is recognized, it should include the cumulative translation adjustment. Similarly, the Task Force reached a consensus-for-exposure that the sale of part of an equity method investment that is a foreign entity should result in a pro rata release of the cumulative translation adjustment. The Task Force concluded that this decision would be consistent with the consensus-for-exposure reached for the loss of a controlling financial interest. Additionally, the staff noted that, on the basis of outreach performed, entities generally indicated that the guidance in paragraph 830-30-40-2 is clear for partial sales of an equity method investment that is a foreign entity.

BC9. The Task Force also discussed the release of the cumulative translation adjustment in a step acquisition involving an investment in a foreign entity and reached a consensus-for-exposure that the cumulative translation adjustment should be released in such a transaction. The Task Force concluded that this would be consistent with the intent of the Board in paragraphs B384 and B389 of FASB Statement No. 141 (revised 2007), *Business Combinations*, for requiring the remeasurement of the original equity interest in a step acquisition. As such, the Task Force noted that the reference to remeasurement in Statement 141R is a reference to the derecognition of an original investment in the acquiree when it is exchanged for a controlling financial interest in all of the underlying assets and liabilities of that entity. Several Task Force members expressed disagreement with the remeasurement requirement of Statement 141R, stating that the cumulative translation adjustment should only be released when an entity loses exposure to a net investment in a foreign entity. To them, the cumulative translation adjustment should not be released into net income because purchase events do not result in derecognition or deconsolidation events for the investment in a foreign entity. However, those Task Force members acknowledged that the consensus-for-exposure is consistent with existing U.S. GAAP, which is outside the scope of this Issue. Accordingly, these Task Force members could agree with the consensus-for-exposure given the confines of the proposed Update. The Board issued a revised proposed Update on October 11, 2012, with a 60-day comment period.

BC10. At the January 17, 2013 EITF meeting, the Task Force considered the mixed feedback received from the nine comment letters on the revised proposed Update.

BC11. The Task Force discussed the merits of allowing a one-time policy election to apply either a Subtopic 830-30 approach or a Subtopic 810-10 approach to releasing the cumulative translation adjustment into net income. Some Task Force members noted that the benefit of a policy election is its acknowledgment (a) that a single approach to the release of cumulative translation adjustment would not provide for comparability of sales or transfers because disposal events by nature are not comparable and (b) that users generally do not have a preference for the approach taken to release cumulative translation adjustment into net income. However, other Task Force members noted that users are generally most interested in having information available to arrive at a recurring cash gain or loss number and that Statement 52 (codified in Topic 830) does not and did not intend a policy election to be made for the release of cumulative translation adjustment into net income. The Task Force also discussed operational challenges of drafting an Update to reflect a policy election because of the difficulty in specifying the election alternatives.

BC12. The Task Force noted that a key difficulty in resolving this Issue is the disparate principles in the foreign currency guidance and the consolidations guidance. The former is a realization of a net investment model while the latter is a control (gaining or losing) model.

BC13. The Task Force noted that Topic 830 requires cumulative translation adjustment to be released into net income only upon events that generally cause a related gain or loss on the net investment to be recognized in net income. That is because the premise of Statement 52 (codified in Topic 830) is that the cumulative translation adjustment relates to an entity's investment in a foreign entity, as that term is defined in Statement 52. In Statement 52, the Board identified the cumulative translation adjustment release events to occur when the net investment in a foreign entity is realized through either (a) a sale or (b) complete or substantially complete liquidation of an investment in a foreign entity. The Board clarified in FASB Interpretation No. 37, *Accounting for Translation Adjustments upon Sale of Part of an Investment in a Foreign Entity*, that the reference to "sale" as a derecognition event for cumulative translation adjustment includes a parent's partial, as well as complete, disposal of its ownership interest in a foreign entity.

BC14. Some Task Force members noted that if the Task Force were to restrict the derecognition of translation gains or losses to events that result in a complete or substantially complete liquidation of the investment in the foreign entity, the cumulative translation adjustment would then be released only when a sale or transfer event essentially becomes the equivalent of a foreign currency *transaction* (that is, when the parent entity holds little to no retained investment in the foreign entity). Supporters of a substantial liquidation threshold generally believe that this treatment best aligns with how Subtopic 830-30 differentiates between translation gains or losses and transaction gains or losses. Subtopic 830-30 requires translation gains or losses to be reported outside net income in other comprehensive income as a cumulative translation adjustment but requires transaction gains or losses to be reported in net income because they are considered real economic gains and losses. Some Task Force members indicated that a substantial liquidation model to derecognize the cumulative translation adjustment would return the guidance to what it was before Interpretation 37's amendments. This, they note, could be beneficial because Interpretation 37's amendments to release a portion of the cumulative translation adjustment upon the sale of only *part* of an ownership interest in a foreign entity appear inconsistent with the realization of a net investment model of Statement 52.

BC15. Other Task Force members, however, said that the amendment in Interpretation 37 to allow the release into net income of a proportionate amount or all of the cumulative translation adjustment (depending on whether the foreign entity is an equity method investment or a consolidated investment, respectively) upon the sale of part of an investment in a foreign entity is consistent with the principle in Statement 52 to release the cumulative translation adjustment when a gain or loss on the net investment in a foreign entity is recognized in net income. These Task Force members also noted that Interpretation 37 is consistent with the premise that the cumulative translation adjustment relates to an entity's investment in a foreign entity. Specifically, Interpretation 37 does not support the release of any cumulative translation adjustment for sale or transfer events that (a) do not relate to an ownership interest in a foreign entity and (b) do not result in a sale or complete or substantially complete liquidation of an investment in the foreign entity. Therefore, the sale of a group of assets or a subsidiary that is within a foreign entity and that does not result in a complete or substantially complete liquidation of an investment in a foreign entity would not qualify for the release of any cumulative translation adjustment. These Task Force members note that limiting derecognition to complete or substantially complete liquidation events (that is, disallowing sales as a derecognition event), is a broader issue that would be more appropriately addressed by the Board.

BC16. The Task Force noted that in amendments to Topic 810 made by FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, the Board changed the events that cause a related gain or loss on a net investment to be recognized in net income by requiring recognition of a gain or loss in net income of any noncontrolling interest retained by a parent upon losing a controlling financial interest over a subsidiary. Previously, a gain or loss related to these events was recognized only for a controlling financial interest when sold. One Board member noted that Statement 160's derecognition guidance was not intended to govern the release of the cumulative translation adjustment relating to the parent's controlling financial interest or to any noncontrolling interest retained by the parent.

BC17. A Task Force member noted that in his view, the cumulative translation adjustment should not be released into net income upon a step acquisition because an entity's exposure risk to the foreign currency is increasing. Other Task Force members pointed to consistency with Subtopic 805-10's recognition guidance for step acquisitions, under which the original equity method investment is remeasured to fair value with any resulting gain or loss recognized in net income. Unless the related cumulative translation adjustment is correspondingly released, the measurement of the newly recorded consolidated investment would not reflect fair value, which is another requirement of Subtopic 805-10. Those Task Force members also noted that the original equity method investment could be viewed as being, effectively, substantially liquidated. However, they acknowledge that step acquisitions illustrate the conflict between the control principle in Subtopics 805-10 and 810-10 and the realization of a net investment principle in Subtopic 830-30.

BC18. A few Task Force members suggested that, based on feedback received on both of the consensuses-for-exposure, the definition of a foreign entity be clarified and that where the cumulative translation adjustment resides be reexamined or confirmed. However, they acknowledged that these subjects are beyond the scope of this Update.

BC19. Following extensive discussion, the Task Force affirmed the revised proposed amendments. The Task Force concluded that the amendments reach a compromise between the disparate principles in Subtopics 830-30 and 810-10 by

(a) retaining the derecognition events in Section 830-30 for the cumulative translation adjustment and (b) accommodating the loss of control concept in Subtopic 810-10 by further clarifying that reference to “sale” as a derecognition event for the cumulative translation adjustment includes the loss of a controlling financial interest in a foreign entity.

Disclosures

BC20. The Task Force concluded that no incremental recurring disclosures should be required by this Update. The Task Force observed that Subtopics 830-30 and 810-10 have existing disclosure requirements that should be applied, if applicable.

Transition and Early Adoption

BC21. The Task Force reached a consensus that the amendments in this Update should be effective prospectively for public entities for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013, and for nonpublic entities for the first annual period beginning after December 15, 2014, and interim and annual periods thereafter. The Task Force concluded that the costs of a full retrospective application outweigh the benefits of providing the information to users of financial statements. Additionally, because the amendments address nonrecurring events, the Task Force was not as concerned about comparative financial statements.

BC22. The Task Force decided to permit early adoption of the amendments. Some Task Force members questioned permitting early adoption if comparative financial statements are not required to be adjusted because such an option potentially reduces comparability among entities. However, the majority of Task Force members concluded that early adoption should be permitted because there already is diversity among entities and early application of the amendments will result in more useful information.

BC23. The Task Force decided that nonpublic entities should have additional time to implement the amendments because of their learning cycle, their resource limitations, and the potential opportunity for them to learn from public entities about implementing the amended guidance.

Benefits and Costs

BC24. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Task Force's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC25. The Task Force concluded that the amendments in this Update will improve financial reporting by eliminating diversity in practice. Because the guidance will be applied prospectively, and no additional disclosures are required, the Task Force does not anticipate that entities will incur significant costs as a result of applying the amendments.

Amendments to the XBRL Taxonomy

The amendments to the *FASB Accounting Standards Codification*® in this Accounting Standards Update do not require changes to the U.S. GAAP Financial Reporting Taxonomy (UGT). Any stakeholders who believe that changes to the UGT are required should provide their comments and suggested changes at www.fasb.org.