FASB Emerging Issues Task Force

Issue No. 12-G

Title: Accounting for the Difference between the Fair Value of the Assets and Liabilities of a Consolidated Collateralized Financing Entity

Document: Issue Summary No. 1*

Date prepared: August 27, 2012

FASB Staff: Brown (ext. 471)/McKinney (ext. 359)

EITF Liaison: Jackson Day

Date previously discussed: None

Previously distributed EITF materials: None

Background

1. In June 2009, the FASB issued Statement No. 167, *Amendments to FASB Interpretation No. 46(R)* (Statement 167 or Update 2009–17), which has since been codified into Topic 810, Consolidation. Under Update 2009-17, if a reporting entity holds a controlling financial interest in a variable interest entity (VIE), that entity is determined to be the primary beneficiary of the VIE and is required to consolidate the VIE. Characteristics of a controlling financial interest in a VIE are (a) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance (the power criterion) and (b) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE (the losses/benefits criterion).

---

* **The alternative views presented in this Issue Summary are for purposes of discussion by the EITF. No individual views are to be presumed to be acceptable or unacceptable applications of Generally Accepted Accounting Principles until the Task Force makes such a determination, exposes it for public comment, and it is ratified by the Board.**

2. As a result of Update 2009-17, reporting entities are often required to consolidate collateralized financing entities (CFEs), such as collateralized debt obligations (CDOs) and collateralized loan obligations (CLOs) entities. These CFEs may hold various types of debt instruments and issue beneficial interests in those financial assets. Generally, all of the beneficial interests in a CFE, including the most subordinate residual interests, are classified as liabilities under U.S. GAAP (that is, the CFE has no equity). In some instances, the reporting entity may not own any of the beneficial interests, but may consolidate the CFE for other reasons; including, it being considered the primary beneficiary because of the subordinated fee structure.

3. Upon the adoption of Update 2009-17, many reporting entities elected the fair value option to account for all eligible financial assets and financial liabilities of CFEs, which were consolidated upon the effective date of the Update. In many instances, when the entity was initially consolidated the aggregate fair value of the assets of the CFE exceeded the aggregate fair value of the CFE's beneficial interests (liabilities). Although the liabilities of the CFE only had recourse to the assets of the CFE, differences between the fair value of the assets and the liabilities could result from the following: (a) liquidity discounts that were inherent in the exit price for the CFE's liabilities and not in the CFE's assets, (b) differences in the duration of the CFE's assets and the duration of the CFE's liabilities, or (c) principal markets for the assets and the liabilities that were not identical.

4. Accordingly, questions existed about how a reporting entity should account for the difference between the fair value of the assets and liabilities of the CFE required to be consolidated upon adoption of Update 2009-17, when the reporting entity does not hold all of the beneficial interests in the CFE.

5. The transition guidance in Update 2009-17 required that the reporting entity record the difference between the assets and liabilities (and the amount of any previously recognized interest in the CFE, if any) of a consolidated CFE as a cumulative effect adjustment to the retained earnings as of the beginning of the year of adoption. However, most reporting entities recorded the initial difference arising from consolidating the CFE under Update 2009-17 directly to appropriated retained earnings rather than as a cumulative effect adjustment to retained

earnings, believing that such an approach more accurately reflected the reporting entity's economic position when the reporting entity does not own any of the beneficial interests.

6. In accordance with Subtopic 810-10, subsequent gains and losses as a result of the change in fair value of the assets and liabilities of the CFE should be recorded within the reporting entity's consolidated net income (loss). However, practice has developed regarding the presentation of that subsequent change in fair value of the assets and liabilities of a consolidated CFE, wherein the portion of such change that is not attributable to the reporting entity is allocated to the noncontrolling interest holders to arrive at the net income (loss) attributable to common shareholders. The net income (loss) allocated to the noncontrolling interest holders is then reclassified to appropriated retained earnings in the statement of changes in equity. Accordingly, under that approach, the change in fair value of the consolidated assets and liabilities subsequent to initial consolidation under Update 2009-17 and attributed to the beneficial interest holders of the CFE is excluded from the reporting entity's earnings per share calculation.

7. For CFEs that are initially consolidated subsequent to the effective date of Update 2009-17,[1] there is diversity in practice regarding the accounting by a reporting entity for the difference between the fair value of assets and beneficial interests (liabilities) of CFEs when the reporting entity becomes the primary beneficiary. Some reporting entities initially record the difference in the consolidated statement of comprehensive income as a gain or loss and allocate such amount to the noncontrolling beneficial interest holders in arriving at net income (loss) available to common shareholders. Such amounts are then reclassified to appropriated retained earnings in the statement of changes in equity. Other reporting entities initially record the difference as a direct adjustment to appropriated retained earnings in the statement of changes in equity (similar to the practice that developed for CFEs that were consolidated upon the adoption of Update 2009-17).

8. Consolidating a CFE as the result of a business combination in which the asset manager managing the CFE is acquired by the reporting entity, can add complexity to the accounting for

[1] Examples of situations in which a reporting entity would be required to subsequently consolidate a CFE include (a) a reassessment of a previous consolidation conclusion, (b) a business combination, and (c) the acquisition of a management contract that results in the consolidation of a CFE.

the difference in the fair value of the assets and liabilities of the consolidated CFE, if any goodwill results from the valuation of the identifiable assets acquired and liabilities assumed of the asset manager. Such complexity is not being discussed in this issue summary.

Scope

9. The initial measurement and recognition guidance in this Issue applies to all entities that are required to consolidate a CFE under the guidance of Subtopic 810-10. The subsequent measurement and recognition guidance in this Issue applies only to entities that have elected a fair value option under Topic 825 to account for all eligible financial assets and financial liabilities of the CFE at fair value.

Accounting Issue and Alternatives

How a reporting entity should initially and subsequently account for the difference between the fair value of the assets and liabilities of a consolidated CFE.

10. The following example will be considered under each view:

> Entity A acquires an asset management entity, Entity Z (which manages a CFE portfolio), for $30 million of non-contingent cash consideration. Entity Z and the CFEs in the portfolio meet the definition of a business as a group. The fair values of Entity Z's assets and liabilities at the acquisition date are $70 million and $40 million, respectively (excluding the assets and liabilities of the CFE portfolio).
>
> On the acquisition date, Entity A does not hold any beneficial interests in the CFE portfolio, which is managed by Entity Z. However, Entity A determines that as a result of the business combination, it would be required to consolidate one of the CFEs included in the portfolio. The fair values of that CFE's assets and liabilities are determined to be $190 million and $150 million, respectively (that is, there is an excess fair value of consolidated assets over liabilities of $40 million). The aggregate fair value of the assets of the CFE exceeds the aggregate fair value of the CFE's beneficial interest (liabilities) due to duration and liquidity differences between the assets and liabilities. In subsequent

periods the difference between the fair values of the CFE's assets and liabilities would decrease such that at the end of the life of the CFE there would no longer be any difference.

View A: A reporting entity that is required to consolidate a CFE would account for the difference in fair value of the assets and the liabilities in accordance with Subtopic 810-10 or Topic 805. The gain or loss would be recognized within consolidated net income (loss) and allocated to the reporting entity in arriving at net income (loss) available to common shareholders. In subsequent periods, the changes in fair value would be reflected in consolidated net income (loss) and would be allocated to the reporting entity in arriving at net income (loss) available to common shareholders.

11. In applying View A to the example described above, Entity A would record the total assets of $260 million (Entity Z's assets of $70 million and the CFE's assets of $190 million), total liabilities of $190 million (Entity Z's liabilities of $40 million and the CFE's liabilities of $150 million), the cash payment of $30 million, and a $40 million bargain purchase gain, representing the excess fair value of acquired assets over liabilities of $40 million resulting from consolidating the CFE.

12. Paragraphs 810-10-30-3 through 30-4 require that when a VIE is initially consolidated, if the VIE does not meet the definition of a business, the primary beneficiary (reporting entity) should initially measure and recognize the assets (except for goodwill) and liabilities of the VIE in accordance with Topic 805 and recognize any difference as a gain or loss.

13. For those VIEs that meet the definition of a business (or are included in a consolidated group that meets the definition of a business) the reporting entity shall apply the guidance in Topic 805 to determine the initial measurement of the consolidated assets and liabilities. In accordance with paragraph 805-30-25-2, if a bargain purchase gain remains after the acquirer has reassessed whether it has correctly identified all of the assets acquired and liabilities assumed and reviewed the measurement procedures used in valuing the assets acquired and liabilities assumed, the bargain purchase gain should be recognized in earnings on the acquisition date.

Proponents of View A believe that in accordance with paragraph 805-30-25-2, the "gain shall be attributed to the acquirer." Accordingly, the gain (or bargain purchase gain) should be allocated to the parent and included in consolidated net income (loss) to arrive at consolidated net income (loss) available to common shareholders.

14. Opponents of View A believe that this view would result in an entity recording a gain in the income statement that would not be realized by the reporting entity's shareholders. They believe that this is contrary to the intention of the bargain purchase accounting model in Topic 805. Paragraph 805-30-25-2 indicates that a gain from bargain purchase occurs when the fair value of the consideration transferred is less than the fair value of the net assets acquired. This differential is considered to be an economic gain resulting from the fair value received being greater than the fair value given up to acquire the net assets. Opponents of View A believe that the differential in consolidating a CFE is not a gain resulting from transferring consideration equal to less than the fair value of the underlying net assets, nor is it a gain for the benefit of the reporting entity's investors. Instead, it is a temporary difference in the residual net asset interests of the CFE that will be allocated legally and economically to the beneficial interest holders of the CFE over time.

15. Further, opponents of View A state that the existence and amount of the differential between the fair value of the assets and liabilities of the CFE likely would have no impact on the amount of consideration a reporting entity would be willing to pay to acquire the CFE.

16. Opponents of View A further note that in a business combination, the amount of the bargain purchase gain that is recorded would not equal the difference between the fair value of the underlying assets and liabilities of a consolidated CFE. That is because the actual goodwill arising from the acquisition would not be recognized, and the remaining amount attributable to the differential between the fair value of the underlying assets and liabilities of the CFE would be treated as bargain purchase gain. That would effectively comingle two very different components of an acquisition, and would result in an improper amount reported for goodwill and retained earnings.

View B: A reporting entity that is required to consolidate a CFE would account for the difference in fair value of the assets and the liabilities in accordance with Subtopic 810-10 or Topic 805. The gain or loss would be recognized within consolidated net income (loss) and the portion relating to beneficial interests not owned by the reporting entity would be allocated to the noncontrolling beneficial interest holders through an adjustment to consolidated net income (loss) in arriving at consolidated net income (loss) available to common shareholders (thus excluded from the earnings per share calculation). The net income (loss) allocated to the noncontrolling beneficial interest holders would then be reclassified to appropriated retained earnings in the statement of changes in equity.

Similarly, subsequent changes in fair value would be reflected in consolidated net income (loss), and the portion relating to beneficial interests not owned by the reporting entity would be allocated to the noncontrolling beneficial interest holders in arriving at consolidated net income (loss) available to common shareholders. The net income (loss) allocated to the noncontrolling beneficial interest holders would then be reclassified to appropriated retained earnings in the statement of changes in equity.

17. In applying View B to the example described above, Entity A would record the total assets of $260 million (Entity Z's assets of $70 million and the CFE's assets of $190 million), total liabilities of $190 million (Entity Z's liabilities of $40 million and the CFE's liabilities of $150 million), the cash payment of $30 million, and a $40 million bargain purchase gain. The bargain purchase gain of $40 million would be allocated to the noncontrolling beneficial interest holders in the statement of comprehensive income and reclassified to appropriated retained earnings in the statement of changes in equity.

18. Proponents of View B agree with the proponents of View A that the difference in fair value of the assets and the liabilities of a consolidated CFE should be recorded as a bargain purchase gain under Topic 805 (or a gain or loss under paragraph 810-10-30-4). However, those proponents observe that for the portion of the difference in fair value of the CFE's assets and liabilities that the reporting entity is not entitled to, the difference should be allocated to the noncontrolling beneficial interest holders in the statement of comprehensive income (that is, they believe that the difference should be an adjustment to consolidated net income (loss) in arriving

at consolidated net income (loss) available to common shareholders). Proponents of View B believe that allocating the difference to noncontrolling beneficial interest holders in the statement of comprehensive income more accurately reflects the reporting entity's economic position since the beneficial interest holders in the CFE instead of the shareholders of the reporting entity, will absorb the gain and loss resulting from the changes to the fair value of the assets and liabilities of the CFE.

19. Similar to opponents of View A, opponents of View B note that in a business combination, the amount of the bargain purchase gain that is recorded would not equal the difference between the fair value of the underlying assets and liabilities of a consolidated CFE.

View C: A reporting entity that is required to consolidate a CFE would account for the difference in fair value of the assets and liabilities by recording it directly to appropriated retained earnings. The gain or loss would not be recognized within consolidated net income (loss).

Subsequent changes in fair value would be reflected in consolidated net income (loss) and the portion relating to beneficial interests not owned by the reporting entity would be allocated to noncontrolling beneficial interest holders in arriving at consolidated net income (loss) available to common shareholders. The net income (loss) allocated to the noncontrolling beneficial interest holders would then be reclassified to appropriated retained earnings in the statement of changes in equity.

20. In applying View C to the example described above, Entity A would record the total assets of $260 million (Entity Z's assets of $70 million and the CFE's assets of $190 million), total liabilities of $190 million (Entity Z's liabilities of $40 million and the CFE's liabilities of $150 million), the cash payment of $30 million, and the excess of the CFE's assets over liabilities of $40 million directly to appropriated retained earnings.

21. Proponents of View C believe that accounting for the consolidation of a CFE by analogizing to the practice applied in adopting Update 2009-17 (that is, the difference between the fair value of the assets and the liabilities being recorded directly to appropriated retained earnings) would

result in the most transparent and useful information for investors. In addition, it would best reflect the economics of the consolidation, that is, the benefit or loss resulting from the difference in fair value of the assets and liabilities will flow to the beneficial interest holders and not to the holders of interests in the reporting entity.

22. Proponents of View C agree with the opponents of View A on the issues related to recording as a gain (or bargain purchase gain) the excess in fair value of the assets over the liabilities for a consolidated CFE that meets the definition of a business (or that is included in a consolidated group that meets the definition of a business). Accordingly, they do not believe that an initial gain (or a bargain purchase gain) should be reflected in the statement of comprehensive income. Further, similar to proponents of View B, these proponents believe that subsequent changes in fair value should be allocated to the noncontrolling beneficial interest holders in the statement of comprehensive income to reflect amounts that will not flow to the reporting entity's shareholders.

23. Opponents of View C note that for consolidations subsequent to the effective date of Update 2009-17, an entity should not analogize to the practice developed in applying the transition guidance for that Update. They believe that it is not appropriate to record a difference in appropriated retained earnings at consolidation, however, and record subsequent changes in the statement of comprehensive income (since the same economics exist at both times).

24. Opponents of View C also question whether it is appropriate to set a precedent that allows an entity to bypass the statement of comprehensive income for recording a gain or loss. They believe that the difference in fair value represents a change in the economic standing of the reporting entity that should be reflected in the statement of comprehensive income in the period in which it occurs and in the period in which it reverses, if that occurs subsequently. The fact that such difference is temporary is not a sufficient basis for recording it directly to appropriated retained earnings.

View D: A reporting entity should account for the beneficial interests in a CFE as noncontrolling interests. Accordingly, there would be no gain or loss reflected in consolidated net income (loss) on the initial recognition. In subsequent periods, the change in the fair value of *the assets and liabilities of the CFE would be included in consolidated net income (loss) and then attributed to the noncontrolling beneficial interest holders in arriving at consolidated net income (loss) available to common shareholders.*

25. In applying View D to the example described above, Entity A would record the total assets of $260 million (Entity Z's assets of $70 million and the CFE's assets of $190 million), total liabilities of $40 million (Entity Z's liabilities), the cash payment of $30 million, and noncontrolling interest of $190 million (equal to the fair value of the CFE's liabilities of $150 million plus the difference in fair value of the CFE's assets and liabilities). Subsequent changes in the fair value of the assets and liabilities of the CFE would be included in consolidated net income (loss) and allocated to the noncontrolling interest holders.

26. Proponents of View D believe that it is inappropriate to classify the beneficial interests of a CFE as liabilities. Rather, they believe that the beneficial interests should be classified as part of the noncontrolling interest. They acknowledge that the residual interests do not meet the definition of a noncontrolling interest in Subtopic 810-10. However, they believe that presenting such interests as part of the noncontrolling interest in the consolidated financial statements would allow users to easily determine the equity attributable to the reporting entity's interest. In addition, the substance of the beneficial interests and their measurement characteristics are economically identical to noncontrolling interests.

27. Subtopic 810-10 defines noncontrolling interest as (in part) "the portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent." Although, paragraph 810-10-45-16A indicates that only a financial instrument "classified as equity in the subsidiary's financial statements" can represent a noncontrolling interest, and, accordingly, the beneficial interest would not qualify as a noncontrolling interest in the consolidated financial statements, proponents of View D believe that it would be inappropriate to classify the beneficial interest as a liability because the beneficial interest represents the portion of the net assets of a CFE that the reporting entity (parent) does not have any right to receive or any obligation to pay (that is, the portion of the net assets that are not attributable to the reporting entity (parent)).

28. Proponents of View D note that in paragraph B35 of the Basis for Conclusions to FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements,* the Board indicated that it did not attempt to answer all of the classification questions that the Board is considering in its liabilities and equity project. In addition, the Board noted in paragraph B35 that it is aware that some financial instruments are commonly called noncontrolling interests but are classified as liabilities or in the mezzanine in accordance with U.S. GAAP or SEC guidance, and that Statement 160 does not provide guidance for those instruments.

29. Proponents of View D also note that noncontrolling interests are required to be reported at fair value under Topic 805. For CFEs that do not meet the definition of a business, paragraph 810-10-30-4 states:

> The primary beneficiary of a VIE that is not a business shall recognize a gain or loss for the difference between (a) and (b):
>
> a. The sum of:
>   1. The fair value of any consideration paid
>   2. **The fair value of any non-controlling interests**
>   3. The reported amount of any previously held interests
>
> b. The net amount of the VIE's identifiable assets and liabilities recognized and measured in accordance with Topic 805 (emphasis added).

30. Opponents of View D believe that the beneficial interests of a CFE are typically issued in the legal form of debt; thus requiring liability classification in the CFE's financial statements. Paragraph 810-10-45-16A indicates that only a financial instrument "classified as equity in the subsidiary's financial statements" can represent a noncontrolling interest. Accordingly, the beneficial interest of a CFE should be classified as a liability in the reporting entity's consolidated financial statements. Although in some situations the beneficial interests may be issued in the form of shares, SEC staff members indicated at the 2009 AICPA Conference on Current SEC and PCAOB Developments[2] that they believe that when an asset-backed financing subsidiary that is not considered a business is created simply to issue beneficial interests in financial assets, those beneficial interests should be classified as liabilities in the consolidated

[2] Speech by SEC staff: Remarks before the 2009 AICPA National Conference on Current SEC and PCAOB Developments, by Brian W. Fields, Professional Accounting Fellow, Office of the Chief Accountant, U.S. Securities and Exchange Commission.

financial statements of the parent entity. Opponents of View D believe that the beneficial interests of a CFE are not substantive because the entity is simply a "pass through entity" that allocates the cash received to the various beneficial interest holders. Accordingly, similar to the interests held by the senior investors, the interests held by the beneficial interest investors should be classified as liabilities.

View E: The fair value of a CFE's assets and liabilities shall be measured consistent with the "financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk" guidance in Topic 820, Fair Value Measurement.

31. In applying View E to the example described above, Entity A would record the total assets of $260 million (Entity Z's assets of $70 million and the CFE assets of $190 million), total liabilities of $230 million (Entity Z's liabilities of $40 million and the CFE liabilities of $190 million), and the cash payment of $30 million. Subsequent changes in the fair value of the CFE's assets would be reflected in the fair value of its liabilities resulting in no impact to the consolidated net income (loss).

32. Proponents of View E believe that the most faithful representation of the fair value of the assets and liabilities of a CFE is in a transaction that involves the sale and transfer of both the assets and the liabilities of the CFE. They highlight that by contract, the assets and liabilities of a CFE are managed together and thus the requirements of the guidance in paragraph 820-10-35-18E may be analogized to in order to measure the fair value of the group of financial assets and financial liabilities consistently with how market participants would price the net risk exposure at the measurement date. They observe that such a transaction would occur at a transaction price of zero and thus that the net of the allocated asset and liability fair value should be zero (fair value would be determined using the more observable of the asset or liability price). They believe that this approach is consistent with the Board's recent decisions in its accounting for financial instruments project. The summary of decisions reached to date during redeliberations (as of June 20, 2012) indicates:

> In circumstances in which financial assets will be used to settle nonrecourse financial liabilities, an entity should measure the financial liabilities consistently with the measure of the related financial assets, **taking into account the same factors in determining each amount**. For example, if both the assets and the liabilities are measured at amortized cost and the reported amount of the assets is reduced by a credit impairment, the reported amount of the nonrecourse liabilities should include the same reduction (emphasis added).

33. Opponents of View E believe that there are differences in the fair value of a CFE's assets and liabilities because a market participant could purchase the beneficial interests (that is, the CFE's liabilities) in the market place, sell the CFE's assets, and realize any difference. They believe that this economic anomaly should be reflected in the fair value measurements.

International Convergence

34. IFRS 10, *Consolidated Financial Statements*, is mainly converged with U.S. GAAP and contains the same transition guidance for initial adoption and ongoing accounting for entities required to be consolidated as contained in Update 2009-17. Additionally, as part of the joint FASB and IASB project, Consolidation: Policies and Procedures, the FASB issued a proposed Update, *Consolidation (Topic 810): Principal versus Agent Analysis*, which would affect all reporting entities required to evaluate whether consolidation of another entity is required. The proposed guidance requires reporting entities to qualitatively assess whether it is using its power as a principal or as an agent, and states that substantive kick-out or participating rights held by multiple parties could indicate that the decision maker is not a principal. Based on the proposed guidance, many reporting entities would conclude that they are not the primary beneficiaries of CFEs and would therefore not consolidate this type of variable interest entity. The timing of completion of the consolidation project is uncertain and the effective date may be a year or more after the completion of that project.

35. IFRS 9, *Financial Instruments*, contains similar classification guidance to the fair value option guidance provided in Topic 825, Financial Instruments. However, IFRS 9 requires certain criteria to be met in order to exercise the option to designate a financial asset or liability at fair value through profit or loss. The joint FASB and IASB project, Accounting for Financial Instruments (AFI), addresses some key differences between the FASB's model and IFRS 9. As

noted above, the FASB tentatively concluded that in instances in which the financial assets will be used to settle nonrecourse financial liabilities, the financial liabilities should be measured consistently with the measurement of the related financial assets, taking into account the same factors in determining each amount. That tentative decision would result in no difference between the fair value of a CFE's assets and liabilities, consistent with View E above. As IFRS 9 does not contain guidance consistent with the aforementioned tentative decision or with Views B through E described above, a consensus reached on Views B through E will not result in convergence with international accounting standards.

Recurring Disclosures

36. The staff does not believe that additional recurring disclosures should be required by this Issue. Reporting entities would need to comply with the disclosure requirements in Topic 810, Topic 820, and other relevant Codification Topics, as applicable.

Transition

37. Presented below are two transition alternatives for consideration:

View A: Entities should apply this Issue on a retrospective basis to all relevant prior periods beginning from the fiscal year in which FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R) *(codified in Topic 810), was initially adopted. Early adoption is permitted.*

38. Proponents of View A observe that the FASB's Conceptual Framework describes comparability (including consistency) as one of the qualitative characteristics of accounting information. Those proponents refer to paragraph B7 of the Basis for Conclusions in FASB Statement No. 154, *Accounting Changes and Error Corrections*, which states that:

> The Board concluded that retrospective application improves financial reporting because it enhances the consistency of financial information between periods. That improved consistency enhances the usefulness of the financial statements, especially by facilitating analysis and understanding of comparative accounting data.

View B: Entities should apply this Issue using a modified retrospective approach in which the guidance in this Issue would only be applied to those consolidated CFEs that exist at the date of adoption. Early adoption is permitted.

39. View B requires entities to apply this Issue to CFEs being consolidated at the date of adoption of this Issue. Proponents of View B believe that retrospectively applying the guidance in this Issue to CFEs that no longer exist or that are no longer consolidated does not provide decision-useful information. Opponents of View B believe that this approach reduces consistency and comparability in financial reporting.

Transition Disclosures

40. The guidance on other presentation matters in Subtopic 250-10, Accounting Changes and Error Corrections—Overall, is applicable for any voluntary change in accounting principle, including a change in the method of applying an accounting principle. The staff recommends that the Task Force require companies to apply the disclosure requirements in Section 250-10-50 for an accounting change required by this Issue. Additionally, the staff recommends that the Task Force not require any additional disclosures other than the requirements in paragraphs 250-10-50-1 through 50-3.

Appendix 12-GA

ILLUSTRATION OF THE APPLICATION OF THE VIEWS TO THE EXAMPLE

Initial Recognition

	View A	View B	View C	View D	View E
Balance Sheet					
Assets	70	70	70	70	70
CFE assets	190	190	190	190	190
Liabilities	40	40	40	40	40
CFE liabilities	150	150	150	-	190
Appropriated retained earnings	-	40	40	-	-
Retained earnings	40	-	-	-	-
Noncontrolling interest (NCI)	-	-	-	190	-
Income Statement					
Net income	40	40	-	-	-
NCI allocation	-	(40) *	-	-	-
Income available to common shareholders	40	-	-	-	-

Subsequent Recognition

Assume at the end of the reporting period that the fair value of the CFE's assets increased to $200, and the fair value of the CFE's liabilities remained $150 (resulting in a change in fair value of $10).

	View A	View B	View C	View D	View E
Balance Sheet					
CFE assets	200	200	200	200	200
CFE liabilities	150	150	150	-	200
Appropriated retained earnings	-	50	50	-	-
Retained earnings	50	-	-	-	-
Noncontrolling interest (NCI)	-	-	-	200	-
Income Statement					
Net income	10	10	10	10	-
NCI allocation	-	(10) *	(10) *	(10)	-
Income available to common shareholders	10	-	-	-	-

* Although this amount is originally included in the allocation to the NCI, it would be reclassified to appropriated retained earnings in the statement of changes in equity.