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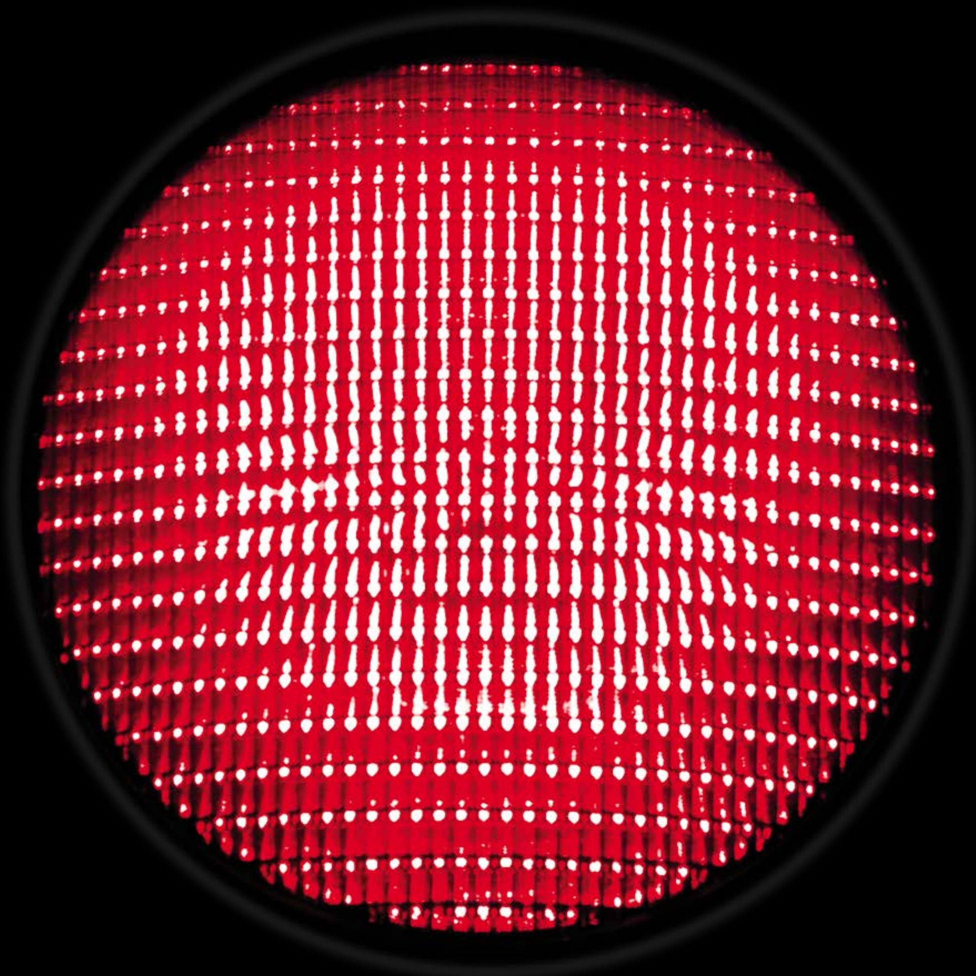

A Roadmap to Common-Control Transactions

2016

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Preface

October 2016

To our friends and clients:

We are pleased to present *A Roadmap to Common-Control Transactions*. This Roadmap provides Deloitte's insights into and interpretations of the guidance on accounting for common-control transactions.

The body of this Roadmap combines the principles from the common-control subsections of ASC 805-50 with Deloitte's interpretations and examples in a comprehensive, reader-friendly format. Further, the table of contents is a helpful navigational tool, providing links to topics and interpretations.

We intend to incorporate this Roadmap — along with others covering additional business combinations issues addressed in subsections of ASC 805-50 — into a comprehensive business combinations Roadmap in the future.

We hope that you find this publication a valuable resource when considering the guidance on accounting for common-control transactions.

Sincerely,

Deloitte & Touche LLP

Accounting for Common-Control Transactions

CC.1 Overview and Scope

CC.1.1 Overview of Common-Control Transactions

A common-control transaction is a transfer of net assets or an exchange of equity interests between entities under the control of the same parent. A common-control transaction is similar to a business combination for the entity that receives the net assets or equity interests; however, such a transaction does not meet the definition of a business combination because there is no change in control over the net assets by the parent. Therefore, the accounting and reporting for a transaction between entities under common control is outside the scope of the business combinations guidance in ASC 805-10,[1] ASC 805-20, and ASC 805-30 and is addressed in the "Transactions Between Entities Under Common Control" subsections of ASC 805-50. Since there is no change in control over the net assets from the parent's perspective, there is no change in basis in the net assets. ASC 805-50 requires that the receiving entity recognize the net assets received at their historical carrying amounts, as reflected in the parent's financial statements. ASC 805-50 does not specifically address the accounting by the transferring entity. In the absence of guidance, certain practices have developed regarding the reporting by the transferring entity in its separate financial statements.

A common-control transaction has no effect on the parent's consolidated financial statements. The net assets are derecognized by the transferring entity and recognized by the receiving entity at their historical carrying amounts. Any difference between the proceeds transferred or received and the carrying amounts of the net assets is recognized in equity in the transferring and receiving entities' separate financial statements and eliminated in consolidation. Therefore, the guidance in the "Transactions Between Entities Under Common Control" subsections of ASC 805-50 and the following sections of this Roadmap applies only to the separate financial statements of a subsidiary that engages in a common-control transaction.

ASC 805-50 also provides guidance addressing whether the receiving entity should report the net assets received prospectively from the date of the transfer or retrospectively for all periods presented. If the recognition of the net assets results in a "change in the reporting entity," the receiving entity presents the transfer in its separate financial statements retrospectively, similarly to a pooling of interests. If not, the receiving entity presents the transfer in its separate financial statements prospectively from the date of the transfer. ASC 805-50 does not specifically address the reporting by the transferring entity;

[1] For a list of the titles of standards and other literature referred to in this publication, see Appendix B. For a list of abbreviations used in this publication, see Appendix C.

however, the transferring entity usually presents the transfer as a disposal on the date of the transfer in its separate financial statements.

CC.1.2 Scope

ASC 805-50

Transactions Between Entities Under Common Control

05-4 As noted in paragraph 805-10-15-4(c), the guidance related to business combinations does not apply to combinations between entities or businesses under common control.

ASC 805-50

Entities

15-5 The guidance in the Transactions Between Entities Under Common Control Subsections applies to all entities.

ASC 805-50

15-6A The guidance in the Transactions between Entities under Common Control Subsections does not apply to the initial measurement by a primary beneficiary of the assets, liabilities, and noncontrolling interests of a VIE if the primary beneficiary of a VIE and the VIE are under common control. Guidance for such a VIE is provided in Section 810-10-30.

15-6B Mergers and acquisitions between or among two or more NFPs, all of which benefit a particular group of citizens, shall not be considered common control transactions solely because those entities benefit a particular group. The mission, operations, and historical sources of support of two or more NFPs may be closely linked to benefiting a particular group of citizens. However, that group neither owns nor controls the NFPs.

The guidance in the "Transactions Between Entities Under Common Control" subsections of ASC 805-50 applies to the separate financial statements of a subsidiary that engages in a common-control transaction. However, ASC 810-10-30-1 addresses how a primary beneficiary of a VIE should initially measure the VIE's assets, liabilities, and noncontrolling interests when the primary beneficiary and the VIE are under common control. That guidance, which is similar to that in ASC 805-50, states:

> If the primary beneficiary of a variable interest entity (VIE) and the VIE are under common control, the primary beneficiary shall initially measure the assets, liabilities, and noncontrolling interests of the VIE at amounts at which they are carried in the accounts of the reporting entity that controls the VIE (or would be carried if the reporting entity issued financial statements prepared in conformity with generally accepted accounting principles [GAAP]).

CC.2 Identifying Common-Control Transactions

CC.2.1 Meaning of the Term "Common Control"

The term "control" has the same meaning as the term "controlling financial interest" in ASC 810-10-15-8,[2] which states:

> For legal entities other than limited partnerships, the usual condition for a controlling financial interest is ownership of a majority voting interest, and, therefore, as a general rule ownership by one reporting entity,

[2] This definition reflects the amendments made by ASU 2015-02, which are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. For all other entities, the ASU's amendments are effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted.

directly or indirectly, of more than 50 percent of the outstanding voting shares of another entity is a condition pointing toward consolidation. The power to control may also exist with a lesser percentage of ownership, for example, by contract, lease, agreement with other stockholders, or by court decree.

In determining control, an entity cannot consider only voting interests. Control may be established in other ways, such as:

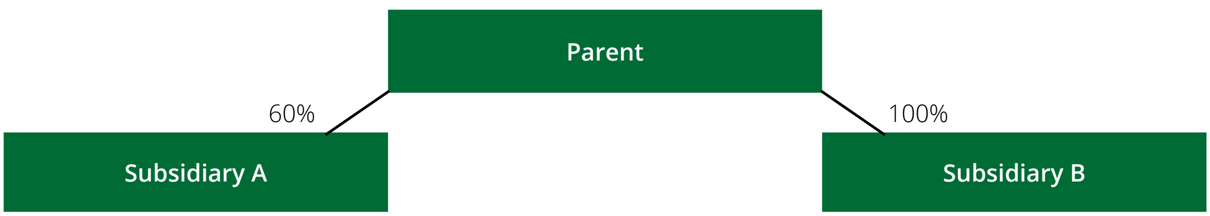
- Variable interests (see the "Variable Interest Entities" subsections of ASC 810-10 and Deloitte's *A Roadmap to Consolidation — Identifying a Controlling Financial Interest*).
- Contractual arrangements (see the "Consolidation of Entities Controlled by Contract" subsections of ASC 810-10).

While "common control" is not defined, we often think of the term as encompassing situations in which separate entities were consolidated by the same parent both before and after the transfer (or would have been consolidated by the same parent if the parent prepared consolidated financial statements).

Example 1

Entities Under Common Control

Parent controls Subsidiary A with its 60 percent voting equity interest and Subsidiary B with its 100 percent voting equity interest. Because Parent controls both A and B, they are under the common control of Parent.



ASC 805-50-15-6 gives examples of other common-control transactions:

ASC 805-50

Transactions

15-6 The guidance in the Transactions between Entities under Common Control Subsections applies to combinations between entities or businesses under common control. The following are examples of those types of transactions:

a. An entity charters a newly formed entity and then transfers some or all of its net assets to that newly chartered entity.
b. A parent transfers the net assets of a wholly owned subsidiary into the parent and liquidates the subsidiary. That transaction is a change in legal organization but not a change in the reporting entity.
c. A parent transfers its controlling interest in several partially owned subsidiaries to a new wholly owned subsidiary. That also is a change in legal organization but not in the reporting entity.
d. A parent exchanges its ownership interests or the net assets of a wholly owned subsidiary for additional shares issued by the parent's less-than-wholly-owned subsidiary, thereby increasing the parent's percentage of ownership in the less-than-wholly-owned subsidiary but leaving all of the existing noncontrolling interest outstanding.

ASC 805-50 (continued)

e. A parent's less-than-wholly-owned subsidiary issues its shares in exchange for shares of another subsidiary previously owned by the same parent, and the noncontrolling shareholders are not party to the exchange. That is not a business combination from the perspective of the parent.

f. A limited liability company is formed by combining entities under common control.

g. Two or more not-for-profit entities (NFPs) that are effectively controlled by the same board members transfer their net assets to a new entity, dissolve the former entities, and appoint the same board members to the newly combined entity.

EITF Issue 02-5 also provided examples of common-control transactions. Although EITF Issue 02-5 was nullified by FASB Statement 141(R), which was codified in ASC 805-10, ASC 805-20, and ASC 805-30, we believe that the guidance provided by that Issue remains applicable to both public and private companies because of a lack of other authoritative guidance on this topic. While no consensus was reached on that Issue, the SEC observer stated that the SEC staff believes that common control exists between (or among) separate entities in the following situations:

a. An individual or enterprise holds more than 50 percent of the voting ownership interest of each entity.

b. Immediate family members hold more than 50 percent of the voting ownership interest of each entity (with no evidence that those family members will vote their shares in any way other than in concert).

   1. Immediate family members include a married couple and their children, but not the married couple's grandchildren.

   2. Entities might be owned in varying combinations among living siblings and their children. Those situations would require careful consideration regarding the substance of the ownership and voting relationships.

c. A group of shareholders holds more than 50 percent of the voting ownership interest of each entity, and contemporaneous written evidence of an agreement to vote a majority of the entities' shares in concert exists.

We understand that the guidance about immediate family members should not be extended to other family relationships such as shares held by in-laws, cousins, or divorced couples. In addition, we understand that the SEC staff has objected to assertions that different companies owned by individuals that are not members of an immediate family are under common control unless there was written evidence of an agreement in place at the time of the transaction to vote a majority of an entity's shares together.

A downstream merger is another example of a common-control transaction. In a downstream merger, a partially owned subsidiary exchanges its common shares for the outstanding voting common shares of its parent. As a result, the consolidated net assets are owned by both the former shareholders of the parent and the former shareholders of the noncontrolling interest in the subsidiary. Regardless of its legal form, a downstream merger is accounted for as if the parent acquired the shares of its subsidiary. Therefore, the reporting for a downstream merger is similar to that for a reverse acquisition without a change in basis for the assets and liabilities. The parent is treated as the ongoing reporting entity from an accounting perspective. The consolidated financial statements of the surviving entity are those of the parent, even though the subsidiary is the surviving legal entity. The shareholders' equity of the surviving entity is adjusted to reflect the shareholders' equity of the former parent, after effect is given to the acquisition of the noncontrolling interest, which is accounted for as an equity transaction in accordance with ASC 810-10-45-23.

In some cases, judgment must be used in the determination of whether entities are under control. An entity should consider all facts and circumstances in making this determination.

CC.2.2 Transactions Between Entities With Common Ownership

Common ownership exists when two or more entities have the same shareholders but no one shareholder controls all of the entities. Transfers of net assets or equity interests among entities that have common ownership are not common-control transactions. However, they may be accounted for similarly to common-control transactions if the transfer lacks economic substance. In prepared remarks at the 1997 Twenty-Fifth Annual National Conference on Current SEC Developments, Donna L. Coallier, then professional accounting fellow in the SEC's Office of the Chief Accountant, addressed transactions between entities with a high degree of common ownership, stating:

> When there is a transaction between entities with a high degree of common ownership, but that are not under common control, the staff assesses the transaction to determine whether the transaction lacks substance. FTB 85-5 provides an example of a similar assessment in an exchange between a parent and a minority shareholder in one of the parent's partially owned subsidiaries. Paragraph 6 of FTB 85-5 states, in part:
>
>> [I]f the minority interest does not change and if in substance the only assets of the combined entity after the exchange are those of the partially owned subsidiary prior to the exchange, a change in ownership has not taken place, and the exchange should be accounted for based on the carrying amounts of the partially owned subsidiary's assets and liabilities.
>
> Similarly, in a transfer or exchange between entities with a high degree of common ownership, the staff compares the percentages owned by shareholders in the combined company to the percentages owned in each of the combining companies before the transaction. When the percentages have changed or the owned interests are not in substance the same before and after the transaction, the staff believes a substantive transaction has occurred and has objected to historical cost accounting.

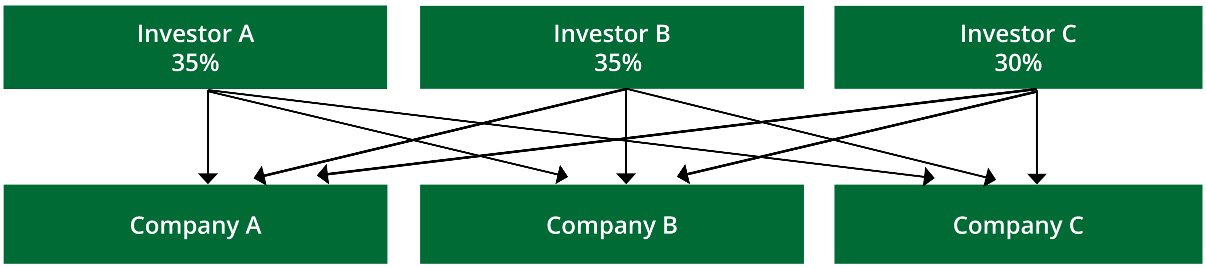
FASB Statement 141(R) nullified Technical Bulletin 85-5. However, in the absence of other authoritative guidance, we believe that it continues to provide relevant guidance on assessing whether a transaction lacks economic substance. On the basis of the guidance in paragraph 6 of Technical Bulletin 85-5 and the prepared remarks of the SEC staff, for a transaction between entities with common ownership to be accounted for in a manner consistent with a common-control transaction, entities are expected to have identical owners and the ownership percentages would need to be very similar both before and after the transaction to demonstrate that the transaction lacks economic substance. Such fact patterns are unusual.

Example 2

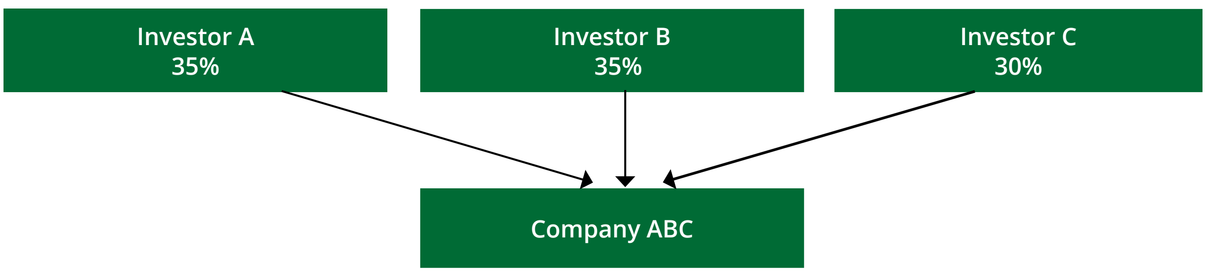
Transfer Between Entities With Common Ownership That Lacks Economic Substance

Investors A and B each have a 35 percent interest and Investor C has a 30 percent interest in Companies A, B, and C. No individual investor controls any of the companies. The investors agree to merge the three companies. Further the investors exchange their shares in each of the three companies for shares of the new, merged company, Company ABC. After the transaction, A and B each have a 35 percent interest and C has a 30 percent interest in ABC.

Before



After



Because A's, B's, and C's ownership in the underlying assets is the same before and after the merger, the transaction lacks economic substance. Thus, the transaction would be accounted for in a manner consistent with a common-control transaction in accordance with ASC 805-50. As the receiving entity, Company ABC would recognize the assets and liabilities of A, B, and C at their historical carrying amounts.

Example 3

Transfer Between Entities With Common Ownership That Has Economic Substance

Investors A, B, C, and D together own Companies A and B. No individual investor controls both A and B. The investors agree to merge A and B. Further, the investors exchange their shares in each of the two companies for share of the new, merged company. The number of shares received is based on the relative fair values of the share held in A and B before the merger.

	Company A	Company B
Investor A	80%	5%
Investor B	10%	10%
Investor C	5%	20%
Investor D	5%	65%

Company A is significantly larger than B such that after the merger the ownership in Company AB is as follows:

	Company AB
Investor A	55%
Investor B	10%
Investor C	10%
Investor D	25%

Although A and B had identical owners before the merger, given the resulting change in relative ownership, it would not be appropriate to account for the transaction in a manner consistent with a common-control transaction.

CC.3 Measurement

CC.3.1 Measurement by the Receiving Entity

ASC 805-50

Transfer Date Recognition

25-2 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 interests shall initially recognize the assets and liabilities transferred at the date of transfer. See the Transactions Between Entities Under Common Control Subsection of Section 805-50-45 for guidance on the presentation of financial statements for the period of transfer and comparative financial statements for prior years.

Under ASC 805-50-30-5, there is no change in basis for the net assets received because there is no change in control over the net asset or equity interests from the parent's perspective. A difference between any proceeds transferred and the carrying amounts of the net assets received is recognized in additional paid-in capital in the receiving entity's separate financial statements.

CC.3.1.1 Difference in Carrying Amounts Between the Parent and Transferring Entity

ASC 805-50

Transfer Date Measurement

30-5 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 interests shall initially measure the recognized assets and liabilities transferred at their carrying amounts in the accounts of the transferring entity at the date of transfer. If the carrying amounts of the assets and liabilities transferred differ from the historical cost of the parent of the entities under common control, for example, because pushdown accounting had not been applied, then the financial statements of the receiving entity shall reflect the transferred assets and liabilities at the historical cost of the parent of the entities under common control.

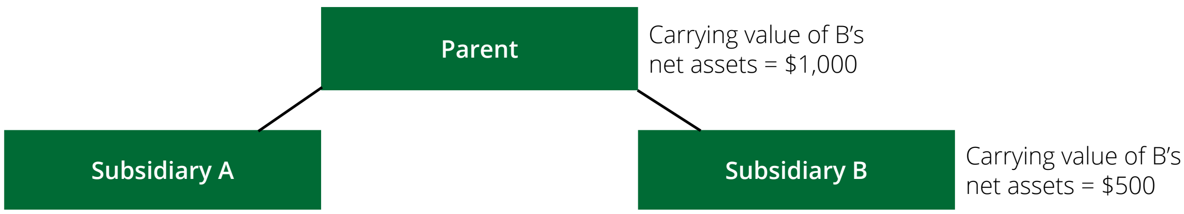
Sometimes, the carrying amounts of the net assets in the transferring entity's financial statements differ from those in the parent's consolidated financial statements. This can occur, for example, if the net assets being transferred were acquired in a business combination but the transferring entity did not apply pushdown accounting at the time of their acquisition. Under ASC 805-50-30-5, "the financial statements of the receiving entity shall reflect the transferred assets and liabilities at the historical cost of the parent of the entities under common control." As a result, the receiving entity effectively applies pushdown accounting in its separate financial statements. (See Deloitte's *A Roadmap to Pushdown Accounting* for more information about the application of pushdown accounting.) Therefore, the amounts of the net assets derecognized by the transferring entity will not be consistent with the amounts of the net assets recognized by the receiving entity.

Example 4

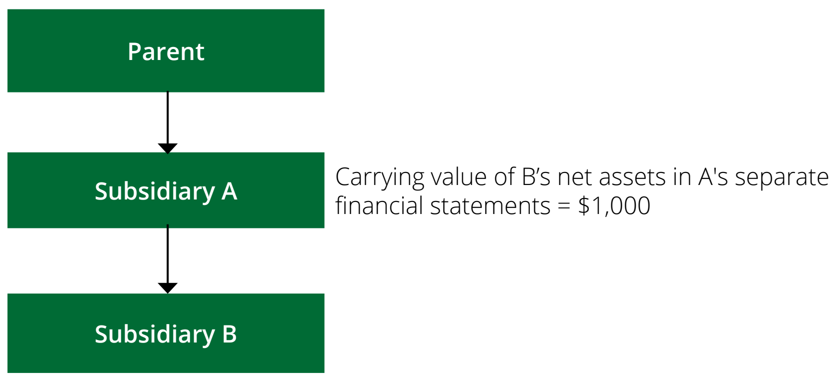
Common-Control Transfer That Triggers Pushdown Accounting

Parent transfers its ownership interest in one of its subsidiaries, Subsidiary B, to another of its subsidiaries, Subsidiary A, in exchange for additional shares of A. The carrying value of B's net assets in Parent's consolidated financial statements is $1,000, and the carrying value of B's net assets in its separate financial statements is $500. The carrying value of B's net assets differs in Parent's consolidated financial statements and in B's separate financial statements because B did not apply pushdown accounting in its separate financial statements when Parent acquired control of B.

Before transfer:



After transfer:



Subsidiary A's separate financial statements should reflect B's net assets at their carrying values, as presented in Parent's consolidated financial statements. The nature of the transfer is that Parent is transferring its investment in B to A.

CC.3.1.2 Conforming Accounting Principles

ASC 805-50

30-6 In some instances, the entity that receives the net assets or equity interests (the receiving entity) and the entity that transferred the net assets or equity interests (the transferring entity) may account for similar assets and liabilities using different accounting methods. In such circumstances, the carrying amounts of the assets and liabilities transferred may be adjusted to the basis of accounting used by the receiving entity if the change would be preferable. Any such change in accounting method shall be applied retrospectively, and financial statements presented for prior periods shall be adjusted unless it is impracticable to do so. Section 250-10-45 provides guidance if retrospective application is impracticable.

While subsidiaries of a common parent generally apply the same accounting principles to similar assets or liabilities, there is no U.S. GAAP requirement that they must. For example, one subsidiary of a parent may apply the last-in, first-out method to account for inventory while another of its subsidiaries may use a different method for similar inventories. Therefore, in some cases, the receiving entity and the transferring entity may use different accounting methods to account for certain assets or liabilities.

ASC 805-50-30-6 states that in a common-control transaction, "the carrying amounts of the assets and liabilities transferred may be adjusted to the basis of accounting used by the receiving entity if the change would be preferable." Thus, if the receiving entity applies a different accounting principle and elects to adopt that accounting principle for the assets or liabilities received, it must determine that the method it applies is preferable to the method applied by the transferring entity and must apply the change in accounting principle retrospectively in all periods presented, unless it is impracticable to do so, in accordance with the guidance in ASC 250. We believe that, in situations in which the accounting principle applied by the receiving entity is not preferable, the receiving entity has two options: (1) to continue to account for the transferred assets and liabilities using the accounting principle applied by the transferring entity or (2) to voluntarily adopt for its assets or liabilities the preferable accounting principle the transferring entity applies in accordance with ASC 250.

CC.3.2 Measurement by the Transferring Entity

ASC 805-50 provides measurement guidance for the receiving entity but not for the transferring entity. Because of this lack of authoritative guidance, practice has developed such that the transferring entity's measurement generally follows the receiving entity's. That is, the transferring entity derecognizes the net assets transferred at their carrying amounts and generally recognizes no gains or losses. A difference between any proceeds received and the carrying amounts of the net assets transferred is recognized in additional paid-in capital in the transferring entity's separate financial statements.

However, in certain circumstances, the transferring entity must remeasure certain assets to fair value and recognize any gains or losses before they are transferred to the receiving entity. As discussed below, such circumstances represent exceptions to the principle that assets and liabilities should be transferred at their historical carrying amounts.

CC.3.2.1 Exception for Transfers of Financial Assets

A transfer of financial assets from one subsidiary to another subsidiary of a common parent is accounted for as a sale by the transferring entity if all the conditions in ASC 860-10-40-5 are met and the receiving entity is not consolidated by the transferring entity. Therefore, in such circumstances, the transferring entity recognizes a gain or loss on a sale of financial assets to the receiving entity. ASC 860-10-40-4 also indicates that "[i]n a transfer between two subsidiaries of a common parent, the [transferring entity] shall not consider parent involvements with the transferred financial assets in applying [ASC] 860-10-40-5." Any gains or losses on the remeasurement of the financial assets recognized in the transferring or receiving entities' separate financial statements are eliminated in the parent's consolidated financial statements. The guidance in ASC 860-10-40-5 does not apply to transfers of financial assets between a parent and its subsidiaries, only to transfers between subsidiaries of a common parent. This guidance also does not apply to a transfer of shares or an interest in a subsidiary unless the subsidiary primarily consists of financial assets (i.e., the transfer is essentially a transfer of financial assets).

CC.3.2.2 Exception for Routine Transfers of Inventory

The transferring entity typically recognizes a gain in its separate financial statements for routine transfers of inventory in the ordinary course of business, and the receiving entity recognizes the inventory at its stepped-up value in its separate financial statements. The accounting for routine transfers of inventory between entities under common control was addressed in EITF Issue 85-21, which states, in part:

> The SEC Observer stated that the SEC staff's views on carrying over historical cost to record, in the separate financial statements of each entity, transfers between companies under common control or between a parent and its subsidiary run primarily to transfers of net assets (as in a business combination) or long-lived assets. **Those views would not normally apply to recurring transactions for which valuation is not in question (such as routine transfers of inventory) in the separate financial statements of each entity that is a party to the transaction**. [Emphasis added]

Although the EITF did not reach a consensus on this Issue, the above guidance continues to be applied in practice. Any gain recognized for the remeasurement of the inventory is eliminated in the parent's consolidated financial statements unless the sale is to a regulated affiliate and the criteria in ASC 980-810-45-1 and 45-2 are met.

CC.3.2.3 Goodwill

If the net assets or equity interest transferred in a common-control transaction constitute a *business* in accordance with ASC 805-10, the transferring entity will need to determine how much goodwill to include with the net assets transferred. If the net assets or equity interest transferred do not constitute a *business*, no goodwill would be transferred to the receiving entity.

An entity must often use judgment in determining the amount of goodwill to include with the net assets transferred. Sometimes this goodwill amount may be specifically identified, while other times it may be based fully or partially on a relative fair value allocation, in which case the entity would be expected to consider the guidance in ASC 350-20-40-1 through 40-7. For example, an entity may specifically identify the goodwill to be included in the net assets transferred when the net assets consist entirely of a subsidiary previously acquired in a business combination. In this scenario, an entity typically would identify the goodwill related to the prior acquisition as included in the net assets transferred, regardless of whether the subsidiary had previously applied pushdown accounting. However, an entity may need to use greater judgment when assessing transferred assets that do not entirely constitute a subsidiary previously acquired in a business combination. For example, an entity may transfer a subsidiary that was acquired in a prior business combination and other businesses that were not. In this scenario, the entity may specifically identify the goodwill for the subsidiary that was previously acquired and may use a relative fair value allocation for the rest of the transferred businesses. Alternatively, the entity may determine that using a relative fair value allocation for the entire transfer is appropriate.

A common-control transfer may also result in a reorganization of reporting structure in the receiving entity's, transferring entity's, or parent's financial statements. Such a reorganization could result in changes in operating segments and reporting units (see Section CC.3.3.2).

CC.3.3 Other Issues That May Affect the Receiving or Transferring Entities

CC.3.3.1 Income Taxes

Paragraphs 270–272 of FASB Statement 109 had provided guidance on accounting for income taxes in a business combination accounted for as a pooling of interests. Because FASB Statement 141 eliminated the pooling-of-interests method, the guidance in Statement 109 was nullified and was not codified.

However, we believe it is appropriate to continue to apply that guidance to a common-control transfer. That guidance stated:

> 270. The separate financial statements of combining enterprises for prior periods are restated on a combined basis when a business combination is accounted for by the pooling-of-interests method. [Footnote omitted] For restatement of periods prior to the combination date, a combining enterprise's operating loss carryforward does not offset the other enterprise's taxable income because consolidated tax returns cannot be filed for those periods. However, provisions in the tax law may permit an operating loss carryforward of either of the combining enterprises to offset combined taxable income subsequent to the combination date.
>
> 271. If the combined enterprise expects to file consolidated tax returns, a deferred tax asset is recognized for either combining enterprise's operating loss carryforward in a prior period. A valuation allowance is necessary to the extent it is more likely than not that a tax benefit will not be realized for that loss carryforward through offset of either (a) the other enterprise's deferred tax liability for taxable temporary differences that will reverse subsequent to the combination date or (b) combined taxable income subsequent to the combination date. Determined in that manner, the valuation allowance may be less than the sum of the valuation allowances in the separate financial statements of the combining enterprises prior to the combination date. That tax benefit is recognized as part of the adjustment to restate financial statements on a combined basis for prior periods. The same requirements apply to deductible temporary differences and tax credit carryforwards.
>
> 272. A taxable business combination may sometimes be accounted for by the pooling-of-interests method. The increase in the tax basis of the net assets acquired results in temporary differences. The deferred tax consequences of those temporary differences are recognized and measured the same as for other temporary differences. As of the combination date, recognizable tax benefits attributable to the increase in tax basis are allocated to contributed capital. Tax benefits attributable to the increase in tax basis that become recognizable after the combination date (that is, by elimination of a valuation allowance) are reported as a reduction of income tax expense.

For more information about income tax issues related to common-control transactions, see Deloitte's *A Roadmap to Accounting for Income Taxes*.

CC.3.3.2 Reorganization of Reporting Structure and Goodwill Impairment Testing

A common-control transfer may result in a reorganization of the reporting structure in the receiving entity's, the transferring entity's, or the parent's financial statements. Thus, if any of the entities involved (i.e., the receiving entity, the transferring entity, or the parent) in the common-control transfer is an SEC registrant, it must assess whether the common-control transfer causes a change in the composition of its reportable segments. Under ASC 280-10-50-34, "[i]f a public entity changes the structure of its internal organization in a manner that causes the composition of its reportable segments to change, the corresponding information for earlier periods, including interim periods, shall be restated unless it is impracticable to do so."

Similarly, entities must also assess whether the common-control transfer results in a change in reporting units. ASC 350-20-35-45 states that "[w]hen an entity reorganizes its reporting structure in a manner that changes the composition of one or more of its reporting units, the guidance in [ASC] 350-20-35-39 through 35-40 shall be used to reassign assets and liabilities to the reporting units affected [but] goodwill shall be reassigned to the reporting units affected using a relative fair value allocation approach similar to that used when a portion of a reporting unit is to be disposed of." ASC 350-20-40-1 through 40-7 provide guidance on allocating goodwill when a portion of a reporting unit is disposed of.

We do not believe that the receiving entity, the transferring entity, or the parent needs to retrospectively test goodwill for impairment in the historical periods before the date of the transfer. However, ASC 350-20-40-7 requires that when a portion of a reporting unit is disposed of, an entity must test for impairment any "goodwill remaining in the portion of the reporting unit to be retained." Therefore, if the transferred net assets represent a business and only a portion of a reporting unit of the transferring entity, the transferring entity must test the remaining portion of the goodwill in the reporting unit for impairment as of the date of the transfer. Similarly, if the transferred net assets represent a business and only a portion of a reporting unit of the parent, the parent must test the remaining portion of the goodwill in the reporting unit for impairment as of the date of the transfer. In addition, we believe that the receiving entity should consider whether, as of the date of the transfer, it is more likely than not that the fair value of any of its reporting units is below its carrying amount as a result of the transfer. If so, the receiving entity should test the reporting unit for impairment on the date of the transfer in accordance with ASC 350-20.

CC.3.3.3 Noncontrolling Interests in a Common-Control Transaction

The ASC master glossary defines a noncontrolling interest (which is sometimes called a "minority interest") as "[t]he portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent."

If there is an outstanding noncontrolling interest in either the receiving entity or the transferring entity as of the date of the common-control transaction, the effect of the transfer on the noncontrolling interest should be accounted for in accordance with ASC 810-10. Any changes in the parent's ownership interest in a subsidiary while it maintains control of the subsidiary are accounted for as an equity transaction. The carrying amount of the noncontrolling interest is adjusted to reflect its change in ownership in the subsidiary. See the implementation guidance in ASC 810-10-55 for examples illustrating how to account for a change in the parent's ownership interest in a subsidiary.

CC.4 Presentation

CC.4.1 Change in the Reporting Entity

ASC 805-50

05-5 Some transfers of net assets or exchanges of shares between entities under common control result in a change in the reporting entity. In practice, the method that many entities have used to account for those transactions is similar to the pooling-of-interests method. The Transactions Between Entities Under Common Control Subsections provide guidance on preparing financial statements and related disclosures for the entity that receives the net assets.

The presentation of a common-control transfer in the receiving entity's separate financial statements differs depending on whether the transfer results in a change in the reporting entity. If the nature of the net assets transferred does not result in a change in the reporting entity, the receiving entity presents the net assets received in its separate financial statements prospectively from the date of the transfer. If the nature of the net assets transferred results in a change in the reporting entity, the receiving entity presents the net assets received in its separate financial statements retrospectively for all periods during which the entities or net assets were under common control, similarly to a pooling of interests under APB Opinion 16.

ASC 250-10 provides guidance on accounting for a change in the reporting entity. It defines a "change in the reporting entity" as:

> A change that results in financial statements that, in effect, are those of a different reporting entity. A change in the reporting entity is limited mainly to the following:
>
> a. Presenting consolidated or combined financial statements in place of financial statements of individual entities

b. Changing specific subsidiaries that make up the group of entities for which consolidated financial statements are presented

c. Changing the entities included in combined financial statements.

Neither a business combination accounted for by the acquisition method nor the consolidation of a variable interest entity (VIE) pursuant to Topic 810 is a change in reporting entity.

Because the guidance in ASC 250-10 is limited, entities must use judgment in determining whether the receiving entity has undergone a change in the reporting entity. The guidance focuses on combining entities or subsidiaries; however, we believe that entities should assess the substance of the transfer rather than its legal form. Typically, the transfer of an asset or a group of similar assets will not result in a change in the reporting entity. For example, the transfer of one or several parcels of land with no other assets or liabilities or any related operations would not be expected to result in a change in the reporting entity. Similarly, if an asset or a group of similar assets constitutes the only assets in a legal entity and the receiving entity receives the shares of that legal entity as a result of a common-control transfer, we believe that entities should assess the nature of the assets transferred rather than the fact that they were transferred as part of a legal entity. We do not believe that an entity should come to a different conclusion solely on the basis of how the transfer is structured (exchange of shares versus a transfer of net assets).

We understand that some believe that if the net assets transferred meet the definition of a business in either ASC 805-10 or Regulation S-X, Article 11, the transfer represents a change in the reporting entity. If the net assets transferred constitute a business, the transfer may be more likely to result in a change in the reporting entity. However, we believe that, in such circumstances, entities should use judgment and should consider all relevant facts and circumstances, including the significance of the transfer to the receiving entity's separate financial statements.

CC.4.2 Financial Statement Presentation by the Receiving Entity

ASC 805-50

45-1 Paragraph 805-50-25-2 establishes that the assets and liabilities transferred between entities under common control are to be initially recognized by the receiving entity at the transfer date. This Subsection provides guidance on the presentation of financial statements for the period of transfer and comparative financial statements for prior years.

Financial Statement Presentation in Period of Transfer

45-2 The financial statements of the receiving entity shall report results of operations for the period in which the transfer occurs as though the transfer of net assets or exchange of equity interests had occurred at the beginning of the period. Results of operations for that period will thus comprise those of the previously separate entities combined from the beginning of the period to the date the transfer is completed and those of the combined operations from that date to the end of the period. By eliminating the effects of intra-entity transactions in determining the results of operations for the period before the combination, those results will be on substantially the same basis as the results of operations for the period after the date of combination. The effects of intra-entity transactions on current assets, current liabilities, revenue, and cost of sales for periods presented and on retained earnings at the beginning of the periods presented shall be eliminated to the extent possible.

45-3 The nature of and effects on earnings per share (EPS) of nonrecurring intra-entity transactions involving long-term assets and liabilities need not be eliminated. However, paragraph 805-50-50-2 requires disclosure.

45-4 Similarly, the receiving entity shall present the statement of financial position and other financial information as of the beginning of the period as though the assets and liabilities had been transferred at that date.

ASC 805-50 (continued)

Comparative Financial Statement Presentation for Prior Years

45-5 Financial statements and financial information presented for prior years also shall be retrospectively adjusted to furnish comparative information. All adjusted financial statements and financial summaries shall indicate clearly that financial data of previously separate entities are combined. However, the comparative information in prior years shall only be adjusted for periods during which the entities were under common control.

If the common-control transaction does not result in a change in the reporting entity, the receiving entity begins reporting the net assets transferred in its separate financial statements prospectively from the date of the transfer. If the common-control transaction results in a change in the reporting entity, the receiving entity begins reporting the net assets transferred in its separate financial statements on the date of the transfer and retrospectively adjusts its historical financial statements to include the net assets received and related operations for all periods during which the entities were under common control. Regardless of whether the common-control transaction results in a change in the reporting entity, the receiving entity cannot begin reporting the net assets or operations of the transferring entity before the transfer date even if it is probable that the transfer will occur.

The requirement in ASC 805-50 to retrospectively adjust the receiving entity's historical financial statements is consistent with the guidance in ASC 250-10 on reporting a change in the reporting entity. ASC 250-10-45-21 states:

> When an accounting change results in financial statements that are, in effect, the statements of a different reporting entity, the change shall be retrospectively applied to the financial statements of all prior periods presented to show financial information for the new reporting entity for those periods. Previously issued interim financial information shall be presented on a retrospective basis. However, the amount of interest cost previously capitalized through application of Subtopic 835-20 shall not be changed when retrospectively applying the accounting change to the financial statements of prior periods.

CC.4.2.1 Pooling-of-Interests Method

The method used to present a common-control transaction that results in a change in the reporting entity is similar to a pooling of interests. A pooling of interests was a method of accounting for a merger of two businesses. The assets and liabilities and operations of the two businesses were combined at their historical carrying amounts, and all historical periods were adjusted as if the businesses had always been combined. Similarly, in a common-control transaction, the receiving entity retrospectively adjusts its financial statements to include the transferred net assets and any related operations for all periods for which the entities or net assets were under common control. If the entities were not under common control for the entire period being reported on, the receiving entity's financial statements are adjusted only retrospectively to the date on which the entities became under common control.

The accounting and reporting guidance on a pooling of interests was established in APB Opinion 16. However, FASB Statement 141 eliminated the pooling-of-interests method of accounting for business combinations and nullified the related guidance. While the guidance in APB Opinion 16 was eliminated, we believe that it continues to provide relevant guidance on presenting common-control transactions that result in a change in the reporting entity. The following bullets summarize how the receiving entity should report the transferred net assets if a change in the reporting entity has occurred and are based on the former guidance in APB Opinion 16 on accounting for a pooling of interests:

- The receiving entity recognizes the transferred net assets at their historical carrying amounts in the parent's consolidated financial statements. No new goodwill is recognized. The carrying values of the transferred net assets are added to the carrying values of the receiving entity's net assets. If the receiving entity and transferring entity applied different accounting principles and the transferred assets or liabilities are adjusted to reflect the method of accounting applied by the receiving entity, the change in accounting principle should be applied retroactively for all periods presented (see Section CC.3.1.2).
- The equity accounts of the separate entities are combined:
  - If the receiving entity issues shares to effect the combination, the par value of the shares issued by the receiving entity is credited to the receiving entity's common-stock account. The entity may need to make adjustments to properly reflect the par value of the receiving entity's common stock. Any adjustments should first be made to combined additional paid-in capital and then to combined retained earnings.
  - The retained earnings (or deficit) of the transferring entity are added to the retained earnings of the receiving entity.
  - Any difference between consideration given by the receiving entity and the carrying amounts of the net assets received is recognized in equity (i.e., as a dividend paid or received).
- The receiving and transferring entities' results of operations are combined in the period in which the transfer occurs as though the entities had been combined as of the beginning of the period (or from the date the entities became under common control if they were not under common control for the entire period).
- Intercompany balances and transactions between the receiving and transferring entities are eliminated.
- Comparative financial statements are retrospectively adjusted as if the receiving and transferring entities had always been combined (or from the date the entities became under common control if they were not under common control for the entire period).

Example 5

Pooling of Interests

Subsidiary A and Subsidiary B are wholly owned and under the common control of Parent. On January 1, 20X6, A issues 100 of its common shares for all of the outstanding common shares of B. The par value of A's common stock is $2 per share. The first two columns summarize the financial information of A and B before the common-control transfer, and the last three columns illustrate combining the assets, liabilities, and shareholders' equity of A and B and the adjustments necessary to state the common stock of the combined entity at its par value.

	Subsidiary A	Subsidiary B	Combined Before Adjustments	Adjustments	Combined After Adjustments
Assets	$ 600	$ 300	$ 900		$ 900
Liabilities	$ (100)	$ (50)	$ (150)		$ (150)
Shareholders' equity					
Common stock	(200)	(50)	(250)	(150)*	(400)
Additional paid-in capital	(50)	(50)	(100)	100 *	—
Retained earnings	(250)	(150)	(400)	50 *	(350)
Total shareholders' equity	(500)	(250)	(750)		(750)
Total liabilities and shareholders' equity	$ (600)	$ (300)	$ (900)		$ (900)

* Subsidiary A issued 100 share of its $2 par value common stock to effect the combination. After the transaction, A has 200 shares of its common stock outstanding. Because the common-stock account cannot exceed the par value of the common stock outstanding, or $400, adjustments must be made within shareholders' equity of the combined entity. The adjustment to reflect the par value of A's common stock outstanding is made first to reduce additional paid-in capital to zero, then to retained earnings.

CC.4.2.2 Identifying the Predecessor in Certain Common-Control Transactions

For common-control transactions that result in a change in the reporting entity and for which both the receiving entity and the transferring entity were not under common control during the entire reporting period, it is necessary to determine which entity is the predecessor. The predecessor is the reporting entity deemed to be the receiving entity for accounting purposes in a common-control transaction. The predecessor is not always the entity that legally receives the net assets or equity interests transferred. If the entities were under common control during the entire reporting period, it is not necessary to determine which entity is the predecessor because the entities are combined from the beginning of the earliest period presented.

In prepared remarks at the 2006 AICPA Conference on Current SEC and PCAOB Developments, Leslie A. Overton, then associate chief accountant in the SEC's Division of Corporation Finance, stated that the predecessor is "normally going to be the entity first controlled by the parent of the entities that are going to be combined." However, at the 2015 AICPA Conference on Current SEC and PCAOB Developments, while not specifically talking about common-control transactions, the SEC staff further highlighted a number of factors for registrants to consider in determining the predecessor, including, but not limited to, (1) the order in which the entities are acquired, (2) the size of the entities, (3) the fair value of the entities, and (4) the ongoing management structure. The staff indicated that no one item is determinative on its own and that there could also be more than one predecessor. Thus, entities should use judgment when identifying the predecessor.

CC.4.3 Financial Statement Presentation by the Transferring Entity

ASC 805-50 only addresses the receiving entity's presentation. It contains no specific guidance on how the transferring entity should present a common-control transfer in its separate financial statements.

Although the transferring entity's measurement generally matches the receiving entity's, its presentation typically does not. Entities have analogized to SAB Topic 5.Z.7 for guidance on whether the transferring entity may present its separate financial statements as if a change in the reporting entity has occurred by derecognizing the transferred net assets and operations in the historical periods (sometimes referred to as a "depooling"). SAB Topic 5.Z.7, which addresses whether an entity may present a spin-off as a change in the reporting entity and restate its historical financial statements to exclude the subsidiary, states:

> **Facts:** A Company disposes of a business through the distribution of a subsidiary's stock to the Company's shareholders on a pro rata basis in a transaction that is referred to as a spin-off.
>
> **Question:** May the Company elect to characterize the spin-off transaction as resulting in a change in the reporting entity and restate its historical financial statements as if the Company never had an investment in the subsidiary, in the manner specified by FASB ASC Topic 250, Accounting Changes and Error Corrections?
>
> **Interpretive response:** Not ordinarily. If the Company was required to file periodic reports under the Exchange Act within one year prior to the spin-off, the staff believes the Company should reflect the disposition in conformity with FASB ASC Topic 360. This presentation most fairly and completely depicts for investors the effects of the previous and current organization of the Company. However, in limited circumstances involving the initial registration of a company under the Exchange Act or Securities Act, the staff has not objected to financial statements that retroactively reflect the reorganization of the business as a change in the reporting entity if the spin-off transaction occurs prior to effectiveness of the registration statement. This presentation may be acceptable in an initial registration if the Company and the subsidiary are in dissimilar businesses, have been managed and financed historically as if they were autonomous, have no more than incidental common facilities and costs, will be operated and financed autonomously after the spin-off, and will not have material financial commitments, guarantees, or contingent liabilities to each other after the spin-off. This exception to the prohibition against retroactive omission of the subsidiary is intended for companies that have not distributed widely financial statements that include the spun-off subsidiary. Also, dissimilarity contemplates substantially greater differences in the nature of the businesses than those that would ordinarily distinguish reportable segments as defined by FASB ASC paragraph 280-10-50-10 (Segment Reporting Topic).

While this guidance does not specifically address common-control transactions, entities have analogized to it in practice. Although this guidance specifically applies to SEC registrants, we believe the underlying concepts are relevant for private companies as well. All requirements in SAB Topic 5.Z.7 must be met for the transferring entity to depool the transferred net assets. Because the SEC staff will often challenge entities that assert that all of the requirements have been met, the transferring entity typically concludes that the requirements are not met and accounts for the transfer as a disposal in accordance with ASC 360. In that case, the transferring entity must also assess, from its perspective rather than from the perspective of the parent, whether the disposal qualifies for presentation as a discontinued operation in accordance with ASC 205-20. See Deloitte's *A Roadmap to Reporting Discontinued Operations* for more information.

CC.5 Disclosures

CC.5.1 Disclosures by the Receiving Entity

ASC 805-50

50-3 The notes to financial statements of the receiving entity shall disclose the following for the period in which the transfer of assets and liabilities or exchange of equity interests occurred:

a. The name and brief description of the entity included in the reporting entity as a result of the net asset transfer or exchange of equity interests
b. The method of accounting for the transfer of net assets or exchange of equity interests.

50-4 The receiving entity also shall consider whether additional disclosures are required in accordance with Section 850-10-50, which provides guidance on related party transactions and certain common control relationships.

In addition to the disclosures required by ASC 805-50-50-3 and ASC 850-10-50, if the net assets transferred result in a change in the reporting entity (see Section CC.4.1), the receiving entity must provide the disclosures required by ASC 250-10-50-6, which states, in part:

> When there has been a change in the reporting entity, the financial statements of the period of the change shall describe the nature of the change and the reason for it. In addition, the effect of the change on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), other comprehensive income, and any related per-share amounts shall be disclosed for all periods presented. Financial statements of subsequent periods need not repeat the disclosures required by this paragraph. If a change in reporting entity does not have a material effect in the period of change but is reasonably certain to have a material effect in later periods, the nature of and reason for the change shall be disclosed whenever the financial statements of the period of change are presented.

CC.5.1.1 Earnings per Share

ASC 805-50

50-2 The nature of and effects on earnings per share (EPS) of nonrecurring intra-entity transactions involving long-term assets and liabilities is not required to be eliminated under the guidance in paragraph 805-50-45-3 but shall be disclosed.

If the receiving entity is required to disclose earnings per share in its separate financial statements and presents the common-control transfer as a change in the reporting entity (see Section CC.4.1), earnings-per-share amounts must be recast to include the earnings (or losses) of the transferred net assets.

CC.5.2 Disclosures by the Transferring Entity

ASC 805-50-50 does not include any specific disclosure requirements for the transferring entity. If the transferring entity accounts for the transferred net assets as a disposal, it should provide the disclosures required by ASC 360-10-50 for long-lived assets that are disposed of. If the disposal qualifies for presentation as a discontinued operation from the perspective of the transferring entity, it should provide the disclosures required by ASC 205-20-50 in its separate financial statements. In addition, we believe that the transferring entity should provide disclosures sufficient for users of its separate financial statements to understand the nature of and accounting for the transfer (to the extent that such disclosures are not required by other GAAP). We believe that the transferring entity should analogize to the disclosure requirements for the receiving entity in ASC 805-50-50-3, ASC 850-10-50, and ASC 250-10-50-6.

CC.6 Transactions Involving Master Limited Partnerships

ASC 805-50

Master Limited Partnership Transactions

05-7 Master limited partnerships are partnerships in which interests are publicly traded. Most master limited partnerships are formed from assets in existing businesses. Typically, the general partner of the master limited partnership is affiliated with the existing business (that is, the master limited partnership is usually operated as an extension of or complementary to the business of the general partner). The purposes for forming a master limited partnership vary. They can be formed to realize the value of undervalued assets, to pass income and tax-deductible losses directly through to owners, to raise capital, to combine several existing partnerships, or as a vehicle to enable entities to sell, spin off, or liquidate existing operations. A master limited partnership may be created in a variety of ways. Whether a particular transaction is a business combination that should be accounted for using the acquisition method or a transaction between entities under common control can be determined only after a careful analysis of all facts and circumstances. Formation of a Master Limited Partnership Subsections identify specific transactions involving master limited partnerships and provide guidance on whether a new basis of accounting is appropriate.

ASC 805-50

Formation of a Master Limited Partnership

30-7 Because of such factors as the consideration of common ownership and changes in control, a new basis of accounting is not appropriate for any of the following transactions that create a master limited partnership:

a. A rollup in which the general partner of the new master limited partnership was also the general partner in some or all of the predecessor limited partnerships and no cash is involved in the transaction. Transaction costs in a rollup shall be charged to expense.

b. A dropdown in which the sponsor receives 1 percent of the units in the master limited partnership as the general partner and 24 percent of the units as a limited partner, the remaining 75 percent of the units are sold to the public, and a two-thirds vote of the limited partners is required to replace the general partner.

c. A rollout.

d. A reorganization.

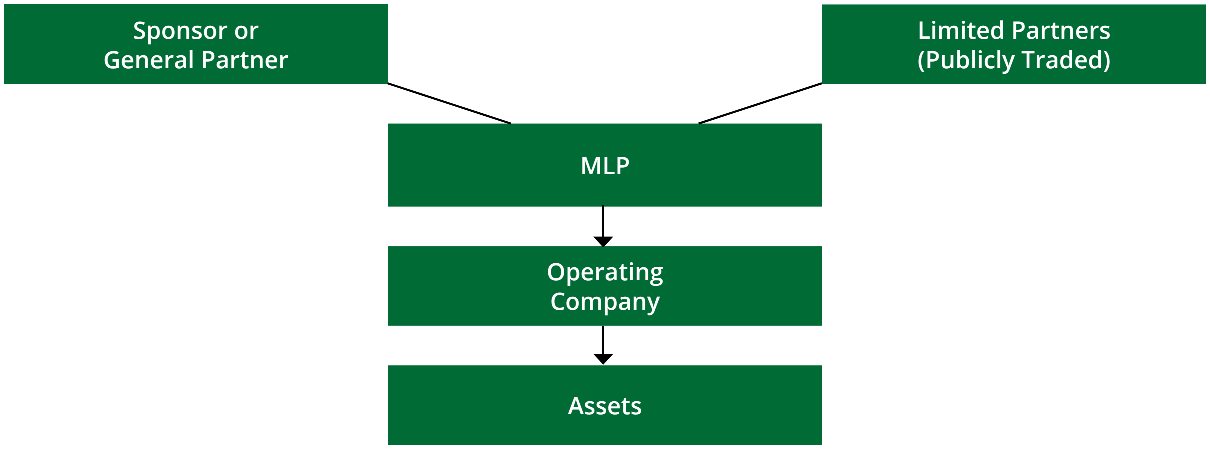
30-8 In other situations, it is possible that a new basis of accounting would be appropriate.

30-9 The issuance of master limited partnership units to a general partner of a predecessor limited partnership who will not be the general partner of the new master limited partnership in settlement of management contracts or for other services that will not carry over to the new master limited partnership has characteristics of compensation rather than of equity and shall be accounted for accordingly by the new master limited partnership.

A master limited partnership (MLP) is a publicly traded partnership that combines the tax benefits of a limited partnership with the liquidity of publicly traded securities. For the MLP to qualify for the tax benefits, 90 percent of its income must come from activities related to natural resources, real estate, or commodities. MLPs commonly engage in petroleum and natural gas extraction and transportation. There are two classes of MLP owners: (1) the "sponsor" or the general partner and (2) the limited partners. The general partner manages the MLP's day-to-day operations. The MLP technically has no employees, so all services are provided or managed by the general partner. All other investors are limited partners and have no involvement in the MLP's operations. The limited partner units are publicly traded much like shares in a corporation, while the general partner units usually are not. The general partner stake is often 2 percent of the partnership, though the general partner can also own limited partner units to increase its overall ownership percentage.

Example 6

Illustration of Typical MLP Structure



An MLP may be formed in various ways. ASC 805-50-30-7 contains terms describing some of the ways in which MLPs may be formed. The ASC master glossary defines these terms as follows:

- *Dropdown* — "A transfer of certain net assets from a sponsor or general partner to [an MLP] in exchange for consideration."
- *Reorganization* — "A way to create [an MLP] in which all of the assets of an entity are placed into [an MLP] and that entity ceases to exist."
- *Rollout* — "A way to create [an MLP] in which certain assets of a sponsor are placed into a limited partnership and units are distributed to the shareholders."
- *Rollup* — "A way to create [an MLP] in which two or more legally separate limited partnerships are combined into one [MLP]."

Before the adoption of ASU 2015-02, the transfer of assets or net assets to form an MLP and any subsequent transfers of assets or net assets to the MLP were often accounted for as common-control transactions because the general partner typically controlled the net assets before and after the transfer. After the adoption of ASU 2015-02, a general partner with a 2 percent interest in an MLP may not control the MLP. Entities should consider all facts and circumstances in determining whether the formation of an MLP and any subsequent transfers to the MLP should be accounted for as a common-control transaction in accordance with ASC 805-50 or as a business combination in accordance with ASC 805-10, ASC 805-20, and ASC 805-30. See Deloitte's *A Roadmap to Consolidation — Identifying a Controlling Financial Interest* for more information. In addition, an entity should consider all facts and circumstances in determining whether the receiving entity should present the transfer as a change in the reporting entity (see Section CC.4.1).

Appendix A — Glossary Terms From ASC 805-50

ASC 805-50-20

Acquiree

The business or businesses that the acquirer obtains control of in a business combination. This term also includes a nonprofit activity or business that a not-for-profit acquirer obtains control of in an acquisition by a not-for-profit entity.

Acquirer

The entity that obtains control of the acquiree. However, in a business combination in which a variable interest entity (VIE) is acquired, the primary beneficiary of that entity always is the acquirer.

Acquisition by a Not-for-Profit Entity

A transaction or other event in which a not-for-profit acquirer obtains control of one or more nonprofit activities or businesses and initially recognizes their assets and liabilities in the acquirer's financial statements. When applicable guidance in Topic 805 is applied by a not-for-profit entity, the term business combination has the same meaning as this term has for a for-profit entity. Likewise, a reference to business combinations in guidance that links to Topic 805 has the same meaning as a reference to acquisitions by not-for-profit entities.

Acquisition Date

The date on which the acquirer obtains control of the acquiree.

Business

An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members, or participants. Additional guidance on what a business consists of is presented in paragraphs 805-10-55-4 through 55-9.

Business Combination

A transaction or other event in which an acquirer obtains control of one or more businesses. Transactions sometimes referred to as true mergers or mergers of equals also are business combinations. See also Acquisition by a Not-for-Profit Entity.

Change in Accounting Principle

A change from one generally accepted accounting principle to another generally accepted accounting principle when there are two or more generally accepted accounting principles that apply or when the accounting principle formerly used is no longer generally accepted. A change in the method of applying an accounting principle also is considered a change in accounting principle.

ASC 805-50-20 (continued)

Conduit Debt Securities

Certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing financing for a specific third party (the conduit bond obligor) that is not a part of the state or local government's financial reporting entity. Although conduit debt securities bear the name of the governmental entity that issues them, the governmental entity often has no obligation for such debt beyond the resources provided by a lease or loan agreement with the third party on whose behalf the securities are issued. Further, the conduit bond obligor is responsible for any future financial reporting requirements.

Control

The same as the meaning of controlling financial interest in paragraph 810-10-15-8.

Dropdown

A transfer of certain net assets from a sponsor or general partner to a master limited partnership in exchange for consideration.

Equity Interests

Used broadly to mean ownership interests of investor-owned entities; owner, member, or participant interests of mutual entities; and owner or member interests in the net assets of not-for-profit entities.

Fair Value

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial Statements Are Available to Be Issued

Financial statements are considered available to be issued when they are complete in a form and format that complies with GAAP and all approvals necessary for issuance have been obtained, for example, from management, the board of directors, and/or significant shareholders. The process involved in creating and distributing the financial statements will vary depending on an entity's management and corporate governance structure as well as statutory and regulatory requirements.

Financial Statements Are Issued

Financial statements are considered issued when they are widely distributed to shareholders and other financial statement users for general use and reliance in a form and format that complies with GAAP. (U.S. Securities and Exchange Commission [SEC] registrants also are required to consider the guidance in paragraph 855-10-S99-2.)

Goodwill

An asset representing the future economic benefits arising from other assets acquired in a business combination or an acquisition by a not-for-profit entity that are not individually identified and separately recognized. For ease of reference, this term also includes the immediate charge recognized by not-for-profit entities in accordance with paragraph 958-805-25-29.

Legal Entity

Any legal structure used to conduct activities or to hold assets. Some examples of such structures are corporations, partnerships, limited liability companies, grantor trusts, and other trusts.

ASC 805-50-20 (continued)

Market Participants

Buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:

a. They are independent of each other, that is, they are not related parties, although the price in a related-party transaction may be used as an input to a fair value measurement if the reporting entity has evidence that the transaction was entered into at market terms
b. They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary
c. They are able to enter into a transaction for the asset or liability
d. They are willing to enter into a transaction for the asset or liability, that is, they are motivated but not forced or otherwise compelled to do so.

Noncontrolling Interest

The portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent. A noncontrolling interest is sometimes called a minority interest.

Nonprofit Activity

An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing benefits, other than goods or services at a profit or profit equivalent, as a fulfillment of an entity's purpose or mission (for example, goods or services to beneficiaries, customers, or members). As with a not-for-profit entity, a nonprofit activity possesses characteristics that distinguish it from a business or a for-profit business entity.

Not-for-Profit Entity [NFP]

An entity that possesses the following characteristics, in varying degrees, that distinguish it from a business entity:

a. Contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return
b. Operating purposes other than to provide goods or services at a profit
c. Absence of ownership interests like those of business entities.

Entities that clearly fall outside this definition include the following:

a. All investor-owned entities
b. Entities that provide dividends, lower costs, or other economic benefits directly and proportionately to their owners, members, or participants, such as mutual insurance entities, credit unions, farm and rural electric cooperatives, and employee benefit plans.

Orderly Transaction

A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (for example, a forced liquidation or distress sale).

Pushdown Accounting

Use of the acquirer's basis in the preparation of the acquiree's separate financial statements.

ASC 805-50-20 (continued)

Related Parties

Related parties include:

a. Affiliates of the entity
b. Entities for which investments in their equity securities would be required, absent the election of the fair value option under the Fair Value Option Subsection of Section 825-10-15, to be accounted for by the equity method by the investing entity
c. Trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management
d. Principal owners of the entity and members of their immediate families
e. Management of the entity and members of their immediate families
f. Other parties with which the entity may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests.
g. Other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

Reorganization

A way to create a master limited partnership in which all of the assets of an entity are placed into a master limited partnership and that entity ceases to exist.

Rollout

A way to create a master limited partnership in which certain assets of a sponsor are placed into a limited partnership and units are distributed to the shareholders.

Rollup

A way to create a master limited partnership in which two or more legally separate limited partnerships are combined into one master limited partnership.

Securities and Exchange Commission (SEC) Filer

An entity that is required to file or furnish its financial statements with either of the following:

a. The Securities and Exchange Commission (SEC)
b. With respect to an entity subject to Section 12(i) of the Securities Exchange Act of 1934, as amended, the appropriate agency under that Section.

Financial statements for other entities that are not otherwise SEC filers whose financial statements are included in a submission by another SEC filer are not included within this definition

Variable Interest Entity [VIE]

A legal entity subject to consolidation according to the provisions of the Variable Interest Entities Subsections of Subtopic 810-10.

Appendix B — Glossary of Standards and Other Literature

The following are the titles of standards and other literature mentioned in this publication:

FASB Accounting Standards Update

ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*

FASB Accounting Standards Codification (ASC) Topics

ASC 205, *Presentation of Financial Statements*
ASC 250, *Accounting Changes and Error Corrections*
ASC 280, *Segment Reporting*
ASC 350, *Intangibles — Goodwill and Other*
ASC 360, *Property, Plant, and Equipment*
ASC 805, *Business Combinations*
ASC 810, *Consolidation*
ASC 850, *Related Party Disclosures*
ASC 855, *Subsequent Events*
ASC 860, *Transfers and Servicing*
ASC 980, *Regulated Operations*

FASB Statements (Pre-Codification Literature)

No. 160, *Noncontrolling Interests in Consolidated Financial Statements*
No. 141(R), *Business Combinations*
No. 141, *Business Combinations*
No. 109, *Accounting for Income Taxes*

FASB Technical Bulletin (Pre-Codification Literature)

No. 85-5, *Issues Relating to Accounting for Business Combinations*

EITF Issues (Pre-Codification Literature)

Issue 02-5, "Definition of 'Common Control' in Relation to FASB Statement No. 141"
Issue 85-21, "Changes of Ownership Resulting in a New Basis of Accounting"

FASB APB Opinions (Pre-Codification Literature)

Opinion 20, *Accounting Changes*
Opinion 16, *Business Combinations*

SEC Regulation S-X

Article 11, "Pro Forma Financial Information"

SEC Staff Accounting Bulletin (SAB) Topic

SAB Topic 5.Z, "Accounting and Disclosure Regarding Discontinued Operations"

Appendix C — Abbreviations

Abbreviation	Description
AICPA	American Institute of Certified Public Accountants
APB	FASB Accounting Principles Board
ASC	FASB Accounting Standards Codification
EITF	Emerging Issues Task Force
Exchange Act	Securities Exchange Act of 1934
FASB	Financial Accounting Standards Board
FTB	FASB Technical Bulletin
GAAP	generally accepted accounting principles
MLP	master limited partnership
NFP	not-for-profit entity
PCAOB	Public Company Accounting Oversight Board
SAB	SEC Staff Accounting Bulletin
SEC	Securities and Exchange Commission
Securities Act	The Securities Act of 1933
VIE	variable interest entity