

Statutory Issue Paper No. 127

Exchanges of Nonmonetary Assets, A Replacement of SSAP No. 28— Nonmonetary Transactions

STATUS

Finalized March 6, 2006

Original SSAP and Current Authoritative Guidance: SSAP No. 90 and SSAP No. 95

Type of Issue:

Common Area

SUMMARY OF ISSUE

1. Existing statutory accounting literature for nonmonetary transactions is maintained within *SSAP No. 28—Nonmonetary Transactions* (SSAP No. 28), which is based on *Accounting Principles Board Opinion No. 29, Accounting for Nonmonetary Transactions* (APB 29). APB 29 is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. However, this guidance includes an exception to this basic premise for nonmonetary exchanges of similar productive assets. *Statement of Financial Accounting Standards No. 153: Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29* (FAS 153), eliminates this exception and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the reporting entity are expected to change significantly as a result of the exchange.

2. The concept of similar productive assets is brought into statutory accounting by the adoption of APB 29 in SSAP No. 28. The concept of commercial substance introduced in FAS 153 is not explicitly discussed in statutory accounting.

FAS 153 affects the following:

- *APB Opinion No. 29, Accounting for Nonmonetary Transactions* (APB 29) which is adopted in *SSAP No. 28—Nonmonetary Transactions*
- Amends *FAS 19, Financial Accounting and Reporting by Oil and Gas Producing Companies*, which is not applicable to statutory accounting
- Amends *FAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, A Replacement of FASB Statement 125*, which is adopted with modification in *SSAP No. 91—Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SSAP No. 91)
- Amends FAS 144, which is adopted with modification in *SSAP No. 90—Accounting for the Impairment or Disposal of Real Estate Investments* (SSAP No. 90)

3. Statutory accounting principles currently exist for nonmonetary exchanges in *SSAP No. 28—Nonmonetary Transactions* (SSAP No. 28). Some elements of APB 29 were adopted and modified for statutory accounting and reporting directly within SSAP No. 28. Other requirements of APB 29 were adopted through reference as in paragraph 3 of SSAP No. 28:

- 3. Except as addressed in other statements (including, but not limited to, *SSAP No. 12—Employee Stock Ownership Plans* (SSAP No. 12), *SSAP No. 13—Stock Option and Stock Purchase Plans* (SSAP No. 13), *SSAP No. 25—Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties* (SSAP No. 25), *SSAP No. 68—Business*

Combinations and Goodwill (SSAP No. 68), and *SSAP No. 72—Surplus and Quasi-reorganizations* (SSAP No. 72)), nonmonetary transactions shall be accounted for in accordance with *Accounting*

Principles Board Opinion No. 29, Accounting for Nonmonetary Transactions (APB 29). The accounting for such transactions shall be based on the fair values of the assets (or services) involved, as defined in paragraph 25 of APB 29.

4. The purpose of this issue paper is to update statutory accounting principles for nonmonetary transactions by updating conclusions reached in SSAP No. 28 related to APB 29 with those included in FAS 153. Consequently, this issue paper adopts FAS 153 with modifications to change GAAP references to those applicable to statutory accounting. In addition, references made to APB 29 within SSAP No. 28 will be replaced with the actual amended guidance resulting from FAS 153.

5. In addition, the purpose of this issue paper is to also amend language used in *SSAP No. 90—Accounting for the Impairment or Disposal of Real Estate Investments, Discontinued Operations* (SSAP No. 90) affected by FAS 153.

SUMMARY CONCLUSION

Definitions

6. The definitions of certain terms used in this statement are:

- a. Monetary assets and liabilities are assets and liabilities whose amounts are fixed in terms of units of currency by contract or otherwise. Examples are cash; amounts due from agents, brokers, and intermediaries; policy loans; accounts payable; and other amounts receivable or payable in cash;
- b. Nonmonetary assets and liabilities are assets and liabilities other than monetary ones. Examples are common stocks; furniture, fixtures, and equipment; real estate and liabilities for rent collected in advance;
- c. Exchange (or exchange transaction) is a reciprocal transfer between a reporting entity and another entity that results in the reporting entity acquiring assets or services or satisfying liabilities by surrendering other assets or services or incurring other obligations. A reciprocal transfer of a nonmonetary asset shall be deemed an exchange only if the transferor has no substantial continuing involvement in the transferred asset such that the usual risks and rewards of ownership of the asset are transferred.
- d. Nonreciprocal transfer is a transfer of assets or services in one direction, either from a reporting entity to its owners (whether or not in exchange for their ownership interests) or another entity, or from owners or another entity, to the reporting entity. An insurance company's reacquisition of its outstanding stock is an example of a nonreciprocal transfer.

7. Nonmonetary transactions shall be accounted for in accordance with this statement, except as addressed by other statements or interpretations including but not limited to *SSAP No. 12—Employee Stock Ownership Plans* (SSAP No. 12), *SSAP No. 13—Stock Option and Stock Purchase Plans* (SSAP No. 13), *SSAP No. 25—Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties* (SSAP No. 25), *SSAP No. 68—Business Combinations and Goodwill* (SSAP No. 68), *SSAP No. 72—Surplus and Quasi-reorganizations* (SSAP No. 72), *SSAP No. 91—Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SSAP No. 91), *INT 99-21: EITF 98-7: Accounting for Exchanges of Similar Equity Method Investments*, *INT 00-12: EITF 99-4: Accounting for Stock Received from the Demutualization of a Mutual Insurance Company*, *INT 00-26: EITF 98-3: Determining Whether a Nonmonetary Transactions Involves Receipt of Productive Assets or*

of a Business (INT 00-26), INT 00-29: EITF 99-17: Accounting for Advertising Barter Transactions (INT 00-29), and INT 03-16: Contribution of Stock (INT 03-16).

8. Accounting for nonmonetary transactions shall generally be based on the fair values of the assets (or services) involved, as defined in paragraph 16, which is the same basis as that used in monetary transactions. Thus, the cost of a nonmonetary asset acquired in exchange for another nonmonetary asset (reciprocal transactions) is the fair value of the asset surrendered to obtain it, and a gain or loss should be recognized on the exchange. The fair value of the asset received should be used to measure the cost if it is more clearly evident than the fair value of the asset surrendered. Similarly, a nonmonetary asset received in a nonreciprocal transfer should be recorded at the fair value of the asset received as defined in paragraph 9. A transfer of a nonmonetary asset to a stockholder or to another entity in a nonreciprocal transfer should be recorded at the fair value of the asset transferred, and a gain or loss should be recognized on the disposition of the asset. The fair value of a reporting entity's own stock reacquired may be a more clearly evident measure of the fair value of the asset distributed in a nonreciprocal transfer if the transaction involves distribution of a nonmonetary asset to eliminate a disproportionate part of owners' interests (that is, to acquire stock for the treasury or for retirement).

9. Fair value of assets received or transferred in a nonreciprocal transfer shall be measured based on statutory accounting principles for the type of asset transferred. Accordingly, the value shall be determined in accordance with SSAP No. 26—*Bonds, Excluding Loan-Backed and Structured Securities*, SSAP No. 30—*Investments in Common Stock (excluding investments in common stock of subsidiary, controlled, or affiliated entities)*, SSAP No. 32—*Investments in Preferred Stock (including investments in preferred stock of subsidiary, controlled, or affiliated entities)*, SSAP No. 37—*Mortgage Loans*, SSAP No. 39—*Reverse Mortgages*, SSAP No. 40—*Real Estate Investments*, SSAP No. 43—*Loan-backed and Structured Securities* or other applicable statement. The guidance provided in SSAP No. 25 shall be followed in accounting for nonreciprocal transactions with affiliates and other related parties as defined in that statement.

10. A nonmonetary exchange shall be measured based on the recorded amount (after reduction, if appropriate, for an indicated impairment of value) of the nonmonetary asset(s) relinquished (SSAP No. 90—*Accounting for the Impairment or Disposal of Real Estate Investments, Discontinued Operations*, (paragraph 20)), and not on the fair values of the exchanged assets, if any of the following conditions apply:

- a. *Fair Value Not Determinable*. The fair value of neither the asset(s) received nor the asset(s) relinquished is determinable within reasonable limits (paragraph 16).
- b. *Exchange Transaction to Facilitate Sales to Customers*. The transaction is an exchange of a product or property held for sale in the ordinary course of business for a product or property to be sold in the same line of business to facilitate sales to customers other than the parties to the exchange.
- c. *Exchange Transaction That Lacks Commercial Substance*. The transaction lacks commercial substance (paragraph 11).

11. A nonmonetary exchange has commercial substance if the entity's future cash flows are expected to significantly change as a result of the exchange. The entity's future cash flows are expected to significantly change if either of the following criteria is met:

- a. The configuration (risk, timing, and amount)¹ of the future cash flows of the asset(s) received differs significantly from the configuration of the future cash flows of the asset(s) transferred.
- b. The entity-specific value² of the asset(s) received differs from the entity-specific value of the asset(s) transferred, and the difference is significant in relation to the fair values of the assets exchanged.

A qualitative assessment will, in some cases, be conclusive in determining that the estimated cash flows of the entity are expected to significantly change as a result of the exchange.

12. In the United States and some other tax jurisdictions, a transaction is not given effect for tax purposes unless it serves a legitimate business purpose other than tax avoidance. In assessing the commercial substance of an exchange, tax cash flows that arise solely because the tax business purpose is based on achieving a specified financial reporting result shall not be considered.

13. Stock received in the form of a stock dividend or stock split shall not result in the recognition of income. The cost basis of stock held shall be reallocated ratably to the total shares held after receipt of the stock dividend or stock split.

14. The exchanges of nonmonetary assets that would otherwise be based on recorded amounts (paragraphs 10 and 11) may include an amount of monetary consideration. The recipient of the monetary consideration has realized gain on the exchange to the extent that the amount of the monetary receipt exceeds a proportionate share of the recorded amount of the asset surrendered. The portion of the cost applicable to the realized amount should be based on the ratio of the monetary consideration to the total consideration received (monetary consideration plus the estimated fair value of the nonmonetary asset received) or, if more clearly evident, the fair value of the nonmonetary asset transferred. However, the entity paying the monetary consideration should not recognize any gain on a transaction covered in paragraphs 10 and 11 but should record the asset received at the amount of the monetary consideration paid plus the recorded amount of the nonmonetary asset surrendered. If a loss is indicated by the terms of a transaction described in this paragraph or in paragraphs 10 and 11, the entire indicated loss on the exchange should be recognized.

15. *Nonreciprocal Transfers to Owners.* Accounting for the distribution of nonmonetary assets to owners of an enterprise in a spin-off or other form of reorganization or liquidation or in a plan that is in substance the rescission of a prior business combination should be based on the recorded amount (after reduction, if appropriate, for an indicated impairment of value) (An indicated impairment of value of a long-lived asset covered by SSAP No. 90 shall be determined in accordance with paragraph 20 of that Statement.) of the nonmonetary assets distributed. A prorata distribution to owners of an enterprise of shares of a subsidiary or other investee company that has been or is being consolidated or that has been or is being accounted for under the equity method is to be considered to be equivalent to a spin-off. Other nonreciprocal transfers of nonmonetary assets to owners should be accounted for at fair value if the fair value of the nonmonetary asset distributed is objectively measurable and would be clearly realizable to the distributing entity in an outright sale at or near the time of the distribution.

¹ The configuration of future cash flows is composed of the risk, timing, and amount of the cash flows. A change in any one of those elements would be a change in configuration.

² An entity-specific value (referred to as an entity-specific measurement in Concepts Statement 7) is different from a fair value measurement. As described in paragraph 24.b. of Concepts Statement 7, an entity-specific value attempts to capture the value of an asset or liability in the context of a particular entity. For example, an entity computing an entity-specific value of an asset would use its expectations about its use of that asset rather than the use assumed by marketplace participants. If it is determined that the transaction has commercial substance, the exchange would be measured at fair value, rather than at the entity-specific value.

16. Fair value of a nonmonetary asset transferred to or from a reporting entity in a nonmonetary transaction should be determined by referring to estimated realizable values in cash transactions of the same or similar assets, quoted market prices, independent appraisals, estimated fair values of assets or services received in exchange, and other available evidence. If one of the parties in a nonmonetary transaction could have elected to receive cash instead of the nonmonetary asset, the amount of cash that could have been received may be evidence of the fair value of the nonmonetary assets exchanged.

17. Fair value should be regarded as not determinable within reasonable limits if major uncertainties exist about the realizability of the value that would be assigned to an asset received in a nonmonetary transaction accounted for at fair value. An exchange involving parties with essentially opposing interests is not considered a prerequisite to determining a fair value of a nonmonetary asset transferred; nor does an exchange insure that a fair value for accounting purposes can be ascertained within reasonable limits. If neither the fair value of a nonmonetary asset transferred nor the fair value of a nonmonetary asset received in exchange is determinable within reasonable limits, the recorded amount of the nonmonetary asset transferred from the enterprise may be the only available measure of the transaction.

18. A difference between the amount of gain or loss recognized for tax purposes and that recognized for accounting purposes may constitute a temporary difference to be accounted for according to *SSAP No. 10—Income Taxes*.

19. Involuntary conversions of nonmonetary assets to monetary assets (for example, as a result of total or partial destruction, theft, seizure, or condemnation) are monetary transactions for which gain or loss shall be recognized even though a reporting entity reinvests or is obligated to reinvest the monetary assets in replacement nonmonetary assets. In some cases, a nonmonetary asset may be destroyed or damaged in one accounting period, and the amount of monetary assets to be received is not determinable until a subsequent accounting period. In those cases, gain or loss shall be recognized in accordance with the conclusions in *SSAP No. 5—Liabilities, Contingencies and Impairments of Assets* (SSAP No. 5). Gain or loss resulting from an involuntary conversion of a nonmonetary asset to monetary assets shall be reported consistently with the reporting entity's reporting of continuing operations and disclosed in the notes to financial statements in accordance with *SSAP No. 24—Discontinued Operations and Extraordinary Items* (SSAP No. 24).

20. Language used in the accounting guidance for long-lived assets to be disposed of other than by sale in paragraphs 18-20 of *SSAP No. 90—Accounting for the Impairment or Disposal of Real Estate Investments, Discontinued Operations* (SSAP No. 90), including section titles, shall be amended as follows:

Long-Lived Assets to Be Disposed Of Other Than By Sale

18. A long-lived asset to be disposed of other than by sale (for example, by abandonment, in an exchange measured based on the recorded amount of the nonmonetary asset relinquished~~for a similar productive long-lived asset~~, or in a distribution to owners in a spinoff) shall continue to be classified as held and used until disposal. Paragraphs 4-17, and 31-35 shall apply while the asset is classified as held and used. If a long-lived asset is to be abandoned or distributed to owners in a spinoff together with other assets (and liabilities) as a group and that disposal group is a segment, paragraphs 31-35 shall apply to the disposal group at the date of disposal.

Long-Lived Asset to Be Abandoned

19. For purposes of this statement, a long-lived asset to be abandoned is disposed of when it ceases to be used. If an entity commits to a plan to abandon a long-lived asset before the end of its previously estimated useful life, depreciation estimates shall be revised in accordance with SSAP No. 3 to reflect the use of the asset over its shortened useful life.

A long-lived asset that has been temporarily idled shall not be accounted for as if abandoned.

Long-Lived Asset to Be Exchanged for a Similarly Productive Long-Lived Asset or to Be Distributed to Owners in a Spinoff

20. For purposes of this statement, a long-lived asset to be disposed of in an exchange measured based on the recorded amount of the nonmonetary asset relinquished ~~exchanged for a similarly productive long-lived asset~~ or to be distributed to owners in a spinoff is disposed of when it is exchanged or distributed. If the asset is tested for recoverability while it is classified as held and used, the estimates of future cash flows used in that test shall be based on the use of the asset for its remaining useful life, assuming that the disposal transaction will not occur. In addition to any impairment losses required to be recognized while the asset is classified as held and used, an impairment loss, if any, shall be recognized when the asset is disposed of if the carrying amount of the asset exceeds its fair value.³

Disclosures

21. A reporting entity that engages in a nonmonetary transaction during a period shall disclose the following in the financial statements:

- a. The nature of the transaction;
- b. The basis of accounting for the assets transferred; and
- c. Gains or losses recognized on transfers.

22. Refer to the preamble for further discussion regarding disclosure requirements. The disclosure in paragraph 21 above shall be included in the annual audited statutory financial reports only.

Effective Date and Transition

23. Upon adoption of this issue paper, the NAIC will release a Statement of Statutory Accounting Principle (SSAP) for comment. The SSAP will contain the adopted Summary Conclusion of this issue paper. Users of the *Accounting Practices and Procedures Manual* should note that issue papers are not represented in the Statutory Hierarchy (see Section IV of the Preamble) and therefore the conclusions reached in this issue paper should not be applied until the corresponding SSAP has been adopted by the Plenary of the NAIC. It is expected that the SSAP will contain an effective date of years ending on or after December 31, 2006.

DISCUSSION

24. In December 2004, the FASB issued SFAS No. 153: *Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29* (APB 29) to improve the comparability of cross-border financial reporting. Working with the International Accounting Standards Board (IASB), FAS 153 was issued as part of a joint effort between the FASB and the IASB to develop a single set of high-quality accounting standards by eliminating a narrow difference between existing accounting standards relative to nonmonetary exchanges.

25. Although not meant to be all inclusive, accounting for specific nonmonetary transactions and unique circumstances is addressed in the following statements of statutory accounting principles:

- *SSAP No. 12—Employee Stock Ownership Plans* (SSAP No. 12),

³ The provisions of this paragraph apply to nonmonetary exchanges that are not recorded at fair value under the provisions of paragraphs 10 and 15 of this issue paper.

- *SSAP No. 13—Stock Options and Stock Purchase Plans* (SSAP No. 13),
- *SSAP No. 25—Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties* (SSAP No. 25),
- *SSAP No. 68—Business Combinations and Goodwill* (SSAP No. 68),
- *SSAP No. 72—Surplus and Quasi-reorganizations* (SSAP No. 72),
- *SSAP No. 91—Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SSAP No. 91),
- *INT 99-21: EITF 98-7: Accounting for Exchanges of Similar Equity Method Investments*,
- *INT 00-12: EITF 99-4: Accounting for Stock Received from the Demutualization of a Mutual Insurance Company*,
- *INT 00-26: EITF 98-3: Determining Whether a Nonmonetary Transactions Involves Receipt of Productive Assets or of a Business* (INT 00-26),
- *INT 00-29: EITF 99-17: Accounting for Advertising Barter Transactions* (INT 00-29), and
- *INT 03-16: Contribution of Stock* (INT 03-16).

26. This issue paper updates general statutory guidance for accounting for nonmonetary transactions not specifically addressed in the statements of statutory accounting principles noted above and carries forward current statutory guidance for stock dividends and stock splits received, other types of nonmonetary transactions and involuntary conversions of nonmonetary assets to monetary assets. The guidance in this issue paper remains consistent with the guidance provided in *SSAP No. 30—Investments in Common Stock (excluding investment in common stock of subsidiary, controlled, or affiliated entities)* (SSAP No. 30), which addresses cash dividends and requires that dividends on common stock be recorded as investment income when declared with a corresponding receivable to be extinguished upon receipt of cash. This issue paper carries forward the disclosure requirements related to nonmonetary transactions from SSAP No. 28.

27. This issue paper adopts APB 29 as modified by FAS 153.

28. This issue paper adopts FAS 153 with modifications for references to statements of statutory accounting principles.

29. This issue paper continues the adoption of ARB 43, Chapter 7, Section B paragraphs 1-9 as such relates to the receipt of stock in the form of a stock dividend or stock split. This conclusion is consistent with the recognition concept included in the Statement of Concepts, which states, “*Revenue should be recognized only as the earnings process of the underlying underwriting or investment business is completed*”.

30. This issue paper continues the adoption of FIN 30 with modification to provide that gain or loss contingencies be recognized in accordance with the conclusion in SSAP No. 5 and that gain or loss resulting from an involuntary conversion of nonmonetary assets to monetary assets be accounted for in continuing operations and disclosed in accordance with *SSAP No. 24—Discontinued Operations and Extraordinary Items*.

31. This issue paper continues the adoption of EITF 86-29 and EITF 93-11 consistent with the general rule discussed in paragraph 26 above.
32. This issue paper continues the rejection of paragraph 16 of *Accounting Principles Board Opinion No. 6, Status of Accounting Research Bulletins and Emerging Issues Task Force No. 96-4, Accounting for Reorganizations Involving a Non-Pro Rata Split-off of Certain Nonmonetary Assets to Owners*.
33. The conclusions above are consistent with the recognition concept included in the Statement of Concepts. The recognition concept states:

The principal focus of solvency measurement is determination of financial condition through analysis of the balance sheet. However, protection of the policyholders can only be maintained through continued monitoring of the financial condition of the insurance enterprise. Operating performance is another indicator of an enterprise's ability to maintain itself as a going concern. Accordingly, the income statement is a secondary focus of statutory accounting and should not be diminished in importance to the extent contemplated by a liquidation basis of accounting.

The ability to meet policyholder obligations is predicated on the existence of readily marketable assets available when both current and future obligations are due. Assets having economic value other than those which can be used to fulfill policyholder obligations, or those assets which are unavailable due to encumbrances or other third party interests should not be recognized on the balance sheet but rather should be charged against surplus when acquired or when availability otherwise becomes questionable.

Liabilities require recognition as they are incurred. Certain statutorily mandated liabilities may also be required to arrive at conservative estimates of liabilities and probable loss contingencies (e.g., interest maintenance reserves, asset valuation reserves, and others).

Revenue should be recognized only as the earnings process of the underlying underwriting or investment business is completed. Accounting treatments which tend to defer expense recognition do not generally represent acceptable SAP treatment.

SAP income reflects the extent that changes have occurred in SAP assets and liabilities for current period transactions, except changes in capital resulting from receipts or distributions to owners. SAP income also excludes certain other direct charges to surplus which are not directly attributable to the earnings process, (e.g., changes in non-admitted assets).

Drafting Notes/Comments

34. None

RELEVANT STATUTORY ACCOUNTING AND GAAP GUIDANCE

Statutory Accounting

35. Statutory accounting principles currently exist for nonmonetary exchanges in *SSAP No. 28—Nonmonetary Transactions* (SSAP No. 28). Statutory accounting guidance regarding nonmonetary transactions related to assets transferred between affiliates currently exists in *SSAP No. 25—Accounting for and Disclosures about Transactions with Affiliates and other Related Parties* (SSAP No. 25).

Generally Accepted Accounting Principles

36. APB 29, as amended by FAS 153, provides the following guidance:

INTRODUCTION

1. Most business transactions involve exchanges of cash or other monetary assets or liabilities¹ for goods or services. The amount of monetary assets or liabilities exchanged generally provides an objective basis for measuring the cost of nonmonetary assets or

services received by an enterprise as well as for measuring gain or loss on nonmonetary assets transferred from an enterprise. Some transactions, however, involve either (a) an exchange with another entity (reciprocal transfer¹) that involves principally nonmonetary assets or liabilities¹ or (b) a transfer of nonmonetary assets for which no assets are received or relinquished in exchange (nonreciprocal transfer¹). Both exchanges and nonreciprocal transfers that involve little or no monetary assets or liabilities are referred to in this section as nonmonetary transactions.

¹ See paragraph 3 of this Opinion for definitions of these terms.

2. Questions have been raised concerning the determination of the amount to assign to a nonmonetary asset transferred to or from an enterprise in a nonmonetary transaction and also concerning the recognition of a gain or loss on a nonmonetary asset transferred from an enterprise in a nonmonetary transaction. Practice has varied; some nonmonetary transactions have been accounted for at the estimated fair value of the assets transferred and some at the amounts at which the assets transferred were previously recorded. This Opinion sets forth the views of the Board on accounting for nonmonetary transactions.

Definitions

3. The meanings of certain terms used in this section are:
- a. Monetary assets and liabilities are assets and liabilities whose amounts are fixed in terms of units of currency by contract or otherwise. Examples are cash, short or long-term accounts and notes receivable in cash, and short- or long-term accounts and notes payable in cash.²
 - b. Nonmonetary assets and liabilities are assets and liabilities other than monetary ones. Examples are inventories; investments in common stocks; property, plant and equipment; and liabilities for rent collected in advance.²

² *APB Statement No. 3, Financial Statements Restated for General Price-Level Changes*, paragraphs 17-19, and Appendix B, contains a more complete explanation of monetary and nonmonetary items.

- c. Exchange (or exchange transaction) is a reciprocal transfer between an enterprise and another entity that results in the enterprise's acquiring assets or services or satisfying liabilities by surrendering other assets or services or incurring other obligations. A reciprocal transfer of a nonmonetary asset shall be deemed an exchange only if the transferor has no substantial continuing involvement in the transferred asset such that the usual risks and rewards of ownership of the asset are transferred.
- d. Nonreciprocal transfer is a transfer of assets or services in one direction, either from an enterprise to its owners (whether or not in exchange for their ownership interests) or another entity or from owners or another entity to the enterprise. An entity's reacquisition of its outstanding stock is an example of a nonreciprocal transfer.
- e. Productive assets are assets held for or used in the production of goods or services by the enterprise. Productive assets include an investment in another entity if the investment is accounted for by the equity method but exclude an

investment not accounted for by that method. Similar productive assets are productive assets that are of the same general type, that perform the same function or that are employed in the same line of business.

³ [This footnote has been deleted. See Status page.]

Applicability

4. This Opinion does not apply to the following transactions:
- a. A business combination accounted for by an enterprise according to the provisions of *FASB Statement No. 141, Business Combinations*,^{3a}

^{3a} Paragraph 10 of Statement 141 states that an exchange of a business for a business is a business combination.

- b. A transfer of nonmonetary assets solely between companies or persons under common control, such as between a parent company and its subsidiaries or between two subsidiary corporations of the same parent, or between a corporate joint venture and its owners,
- c. Acquisition of nonmonetary assets or services on issuance of the capital stock of an enterprise,⁴

⁴ *FASB Statement No. 123 (revised 2004), Share-Based Payment*, applies to all transactions in which an entity acquires goods or services by issuing its shares or other equity instruments (except for equity instruments held by an employee stock ownership plan or by incurring liabilities to the supplier (a) in amounts based, at least in part, on the price of the entity's shares or other equity instruments or (b) that require or may require settlement by issuance of the entity's shares or other equity instruments.

- d. Stock issued or received in stock dividends and stock splits which are accounted for in accordance with ARB No. 43, Chapter 7B,
- e. A transfer of assets to an entity in exchange for an equity interest in that entity,
- f. A pooling of assets in a joint undertaking intended to find, develop, or produce oil or gas from a particular property or group of properties, as described in paragraph 44 of *FASB Statement No. 19, Financial Accounting and Reporting by Oil and Gas Producing Companies*, as amended by *FASB Statements No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections, and No. 153, Exchanges of Nonmonetary Assets*,
- g. The exchange of a part of an operating interest owned for a part of an operating interest owned by another party that is subject to paragraph 47.e. of Statement 19, and
- h. The transfer of a financial asset within the scope of *FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.

Some exchanges of nonmonetary assets involve a small monetary consideration, referred to as "boot," even though the exchange is essentially nonmonetary. This Opinion also applies to those transactions. For purposes of applying this Opinion, events and transactions in which nonmonetary assets are involuntarily converted (for example, as a result of total or partial destruction, theft, seizure, or condemnation) to monetary assets that are then reinvested in other nonmonetary assets—are monetary transactions since the recipient is not obligated to reinvest the monetary consideration in other nonmonetary assets.

DISCUSSION

Present Accounting for Nonmonetary Transactions

5. *Nonreciprocal Transfers with Owners.* Some nonmonetary transactions are nonreciprocal transfers between an enterprise and its owners. Examples include (a) distribution of nonmonetary assets, such as marketable equity securities, to stockholders as dividends, (b) distribution of nonmonetary assets, such as marketable equity securities, to stockholders to redeem or acquire outstanding capital stock of the enterprise, (c) distribution of nonmonetary assets, such as capital stock of subsidiaries, to stockholders in corporate liquidations or plans of reorganization that involve disposing of all or a significant segment of the business (the plans are variously referred to as spin-offs, split-ups, and split-offs), and (d) distribution of nonmonetary assets to groups of stockholders, pursuant to plans of rescission or other settlements relating to a prior business combination, to redeem or acquire shares of capital stock previously issued in a business combination. Accounting for decreases in owners' equity that result from nonreciprocal nonmonetary transactions with owners has usually been based on the recorded amount of the nonmonetary assets distributed.
6. *Nonreciprocal Transfers with Other Than Owners.* Other nonmonetary transactions are nonreciprocal transfers between an enterprise and entities other than its owners. Examples are the contribution of nonmonetary assets by an enterprise to a charitable organization and the contribution of land by a governmental unit for construction of productive facilities by an enterprise. Accounting for nonmonetary assets received in a nonreciprocal transfer from an entity other than an owner has usually been based on fair value of the assets received while accounting for nonmonetary assets transferred to another entity has usually been based on the recorded amount of the assets relinquished.
7. *Nonmonetary Exchanges.* Many nonmonetary transactions are exchanges of nonmonetary assets or services with another entity. Examples include (a) exchange of product held for sale in the ordinary course of business (inventory) for dissimilar property as a means of selling the product to a customer, (b) exchange of product held for sale in the ordinary course of business (inventory) for similar product as an accommodation - that is, at least one party to the exchange reduces transportation costs, meets immediate inventory needs, or otherwise reduces costs or facilitates ultimate sale of the product—and not as a means of selling the product to a customer, and (c) exchange of productive assets—assets employed in production rather than held for sale in the ordinary course of business - for similar productive assets or for an equivalent interest in similar productive assets. Examples of exchanges in category (c) include the trade of player contracts by professional sports organizations, exchange of leases on mineral properties, exchange of one form of interest in an oil producing property for another form of interest, exchange of real estate for real estate. Accounting for nonmonetary assets acquired in a nonmonetary exchange has sometimes been based on the fair value of the assets relinquished and sometimes on the recorded amount of the assets relinquished.

Differing Views

8. Views of accountants differ as to appropriate accounting for all of the types of nonmonetary transactions described in paragraphs 5-7.

9. *Nonreciprocal Transfers of Nonmonetary Assets to Owners.* Some believe that accounting for nonreciprocal transfers of nonmonetary assets to owners should be based on the carrying amount of the nonmonetary assets transferred because only that method is consistent with the historical cost basis of accounting.
10. Others believe that accounting for transfers of nonmonetary assets to reduce certain owners' interests other than through a reorganization, liquidation, or rescission of a prior business combination should be based on the fair value of the nonmonetary assets distributed or the fair value of the stock representing the owners' equity eliminated, whichever is more clearly evident. In their view, disposing of the value represented by a nonmonetary asset is a significant economic event, and the unrecorded increase or decrease that has resulted in the value of the nonmonetary asset since its acquisition should be recognized.
11. Many who agree with accounting based on fair value for a nonreciprocal transfer of a nonmonetary asset that reduces certain owners' interests also believe that distributing a nonmonetary asset as an ordinary dividend (but not distributing a nonmonetary asset as a liquidating dividend or in a spin-off, reorganization or similar distributions) may be regarded as equivalent to an exchange with owners and therefore recorded at the fair value of the nonmonetary asset distributed, particularly if the dividend is distributable as either cash or the nonmonetary asset at the election of the owner. They believe that failure to recognize the fair value of nonmonetary assets transferred may both misstate the dividend and fail to recognize gains and losses on nonmonetary assets that have already been earned or incurred by the enterprise and should be recognized on distributing the assets for dividend purposes.
12. Others generally agree with the view that nonreciprocal transfers of nonmonetary assets to certain owners should be accounted for at fair value but believe that dividends and other prorata distributions to owners are essentially similar to liquidating dividends or distributions in spin-offs and reorganizations and should be accounted for at the recorded amount of the asset transferred.
13. *Nonreciprocal Receipts of Nonmonetary Assets.* Many believe that a nonmonetary asset received in a nonreciprocal transfer from other than owners should be recorded at fair value because fair value is the only value relevant to the recipient enterprise. Others believe that such nonmonetary assets should be recorded at a nominal value since fair value cannot be reasonably determined in view of performance obligations usually agreed to by the recipient as a consideration for the transfer.
14. *Nonreciprocal Transfers of Nonmonetary Assets to Other Than Owners.* Some believe that accounting for a nonreciprocal transfer of a nonmonetary asset to an entity other than an owner should be based on the carrying amount of the asset transferred because only that method is consistent with the historical cost basis of accounting. Others believe that failure to recognize the fair value of a nonmonetary asset transferred may both understate (or overstate) expenses incurred and fail to recognize gains or losses on nonmonetary assets that have already been earned or incurred by the enterprise and should be recognized when the transfer of the asset is recognized as an expense.
15. *Exchange Transactions.* Some believe that accounting for an exchange of nonmonetary assets between an enterprise and another entity (an enterprise or individual acting in a capacity other than a stockholder of the enterprise) should be based on the fair values of the assets involved, while others believe that accounting for the exchange should be based on the carrying amount of the asset transferred from the enterprise. Those who advocate the former view believe it to be the only method consistent with the accounting principle that an asset acquired should be recorded at its cost as measured by the fair value of the asset relinquished to acquire it. Those advocating the latter view believe that revenue should be recognized only if an exchange involves monetary assets; therefore recognizing fair value is inappropriate unless a monetary asset is received in an exchange.

16. Many accountants who accept the concept that accounting for an exchange of nonmonetary assets should be based on fair value believe that problems of measurement and questions about the conditions for recognizing revenue require modification of the concept in two types of exchanges. They therefore conclude that:
- a. Fair values should not be recognized if an enterprise exchanges product or property held for sale in the ordinary course of business for product or property to be sold in the same line of business. The emphasis in that exchange, in their view, is on developing economical ways to acquire inventory for resale to customers rather than on marketing inventory to obtain revenue from customers. Therefore, "swapping" inventories between enterprises that are essentially competitors and not customers of each other is merely an incidental early stage of an earning process, and revenue should not be recognized until the time of sale of the exchanged products (in the same or another form) to a customer of the enterprise.
 - b. Fair value should not be recognized if an enterprise exchanges a productive asset for a similar productive asset or an equivalent interest in the same or similar productive asset. Therefore, revenue should not be recognized merely because one productive asset is substituted for a similar productive asset but rather should be considered to flow from the production and sale of the goods or services to which the substituted productive asset is committed.
17. *Fair Value Not Determinable.* General agreement exists that a nonmonetary transaction, regardless of form, should not be recorded at fair value if fair value is not determinable within reasonable limits. Major uncertainties concerning realizability of the fair value proposed to be assigned to a nonmonetary asset received in a nonmonetary transaction are indicative of an inability to determine fair value within reasonable limits. Some believe that only an exchange transaction between parties with essentially opposing interests provides an independent test of fair value to be used in measuring the transaction; therefore fair value is determinable within reasonable limits only in a negotiated exchange transaction. Others believe that fair value in a nonreciprocal transfer is also often determinable within reasonable limits and should be recognized in certain types of transactions.

OPINION

Basic Principle

18. The Board concludes that in general accounting for nonmonetary transactions should be based on the fair values⁵ of the assets (or services) involved which is the same basis as that used in monetary transactions. Thus, the cost of a nonmonetary asset acquired in exchange for another nonmonetary asset is the fair value of the asset surrendered to obtain it, and a gain or loss should be recognized on the exchange. The fair value of the asset received should be used to measure the cost if it is more clearly evident than the fair value of the asset surrendered. Similarly, a nonmonetary asset received in a nonreciprocal transfer should be recorded at the fair value of the asset received. A transfer of a nonmonetary asset to a stockholder or to another entity in a nonreciprocal transfer should be recorded at the fair value of the asset transferred, and a gain or loss should be recognized on the disposition of the asset. The fair value of an entity's own stock reacquired may be a more clearly evident measure of the fair value of the asset distributed in a nonreciprocal transfer if the transaction involves distribution of a nonmonetary asset to eliminate a disproportionate part of owners' interests (that is, to acquire stock for the treasury or for retirement).

⁵ See paragraph 25 for determination of fair value.

19. The Board believes that certain modifications of the basic principle are required to accommodate problems of measurement and questions about the conditions for recognizing revenue. These modifications are specified in paragraphs 20-23.

Modifications of the Basic Principle

20. A nonmonetary exchange shall be measured based on the recorded amount (after reduction, if appropriate, for an indicated impairment of value) of the nonmonetary asset(s) relinquished,^{5a} and not on the fair values of the exchanged assets, if any of the following conditions apply:

^{5a} An indicated impairment of value of a long-lived asset within the scope of Statement 144 shall be determined in accordance with paragraph 29 of that Statement.

- a. Fair Value Not Determinable. The fair value of neither the asset(s) received nor the asset(s) relinquished is determinable within reasonable limits (paragraph 25).
- b. Exchange Transaction to Facilitate Sales to Customers. The transaction is an exchange of a product or property held for sale in the ordinary course of business for a product or property to be sold in the same line of business to facilitate sales to customers other than the parties to the exchange.
- c. Exchange Transaction That Lacks Commercial Substance. The transaction lacks commercial substance (paragraph 21).

Commercial Substance

21. A nonmonetary exchange has commercial substance if the entity's future cash flows^{5b} are expected to significantly change as a result of the exchange. The entity's future cash flows are expected to significantly change if either of the following criteria is met:

^{5b} *FASB Concepts Statement No. 7, Using Cash Flow Information and Present Value in Accounting Measurements*, contains guidance that may be useful in evaluating changes in future cash flows.

- a. The configuration (risk, timing, and amount)^{5c} of the future cash flows of the asset(s) received differs significantly from the configuration of the future cash flows of the asset(s) transferred.

^{5c} The configuration of future cash flows is composed of the risk, timing, and amount of the cash flows. A change in any one of those elements would be a change in configuration.

- b. The entity-specific value^{5d} of the asset(s) received differs from the entity-specific value of the asset(s) transferred, and the difference is significant in relation to the fair values of the assets exchanged.

^{5d} An entity-specific value (referred to as an entity-specific measurement in Concepts Statement 7) is different from a fair value measurement. As described in paragraph 24.b. of Concepts Statement 7, an entity-specific value attempts to capture the value of an asset or liability in the context of a particular entity. For example, an entity computing an entity-specific value of an asset would use its expectations about its use of that asset rather than the use assumed by marketplace participants. If it is determined that the transaction has commercial substance, the exchange would be measured at fair value, rather than at the entity-specific value.

A qualitative assessment will, in some cases, be conclusive in determining that the estimated cash flows of the entity are expected to significantly change as a result of the exchange.

⁶ [This footnote has been deleted. See Status page.]

- 21A. In the United States and some other tax jurisdictions, a transaction is not given effect for tax purposes unless it serves a legitimate business purpose other than tax avoidance. In assessing the commercial substance of an exchange, tax cash flows that arise solely because the tax business purpose is based on achieving a specified financial reporting result shall not be considered.
22. The exchanges of nonmonetary assets that would otherwise be based on recorded amounts (paragraph 21) may include an amount of monetary consideration. The Board believes that the recipient of the monetary consideration has realized gain on the exchange to the extent that the amount of the monetary receipt exceeds a proportionate share of the recorded amount of the asset surrendered. The portion of the cost applicable to the realized amount should be based on the ratio of the monetary consideration to the total consideration received (monetary consideration plus the estimated fair value of the nonmonetary asset received) or, if more clearly evident, the fair value of the nonmonetary asset transferred. The Board further believes that the entity paying the monetary consideration should not recognize any gain on a transaction covered in paragraph 21 but should record the asset received at the amount of the monetary consideration paid plus the recorded amount of the nonmonetary asset surrendered. If a loss is indicated by the terms of a transaction described in this paragraph or in paragraph 21, the entire indicated loss on the exchange should be recognized.
23. Nonreciprocal Transfers to Owners. Accounting for the distribution of nonmonetary assets to owners of an enterprise in a spin-off or other form of reorganization or liquidation or in a plan that is in substance the rescission of a prior business combination should be based on the recorded amount (after reduction, if appropriate, for an indicated impairment of value) ^{6a} of the nonmonetary assets distributed. A prorata distribution to owners of an enterprise of shares of a subsidiary or other investee company that has been or is being consolidated or that has been or is being accounted for under the equity method is to be considered to be equivalent to a spin-off. Other nonreciprocal transfers of nonmonetary assets to owners should be accounted for at fair value if the fair value of the nonmonetary asset distributed is objectively measurable and would be clearly realizable to the distributing entity in an outright sale at or near the time of the distribution.

^{6a} An indicated impairment of value of a long-lived asset covered by Statement 144 shall be determined in accordance with paragraph 29 of that Statement.

Applying the Basic Principle

24. The Board's conclusions modify to some extent existing practices as described in paragraphs 5 to 7. The conclusions are based on supporting reasons given in paragraphs 8-17.
25. Fair value of a nonmonetary asset transferred to or from an enterprise in a nonmonetary transaction should be determined by referring to estimated realizable values in cash transactions of the same or similar assets, quoted market prices, independent appraisals, estimated fair values of assets or services received in exchange, and other available evidence. If one of the parties in a nonmonetary transaction could have elected to receive cash instead of the nonmonetary asset, the amount of cash that could have been received may be evidence of the fair value of the nonmonetary assets exchanged.
26. Fair value should be regarded as not determinable within reasonable limits if major uncertainties exist about the realizability of the value that would be assigned to an asset received in a nonmonetary transaction accounted for at fair value. An exchange involving parties with essentially opposing interests is not considered a prerequisite to determining a fair value of a nonmonetary asset transferred; nor does an exchange insure that a fair value for accounting purposes can be ascertained within reasonable limits. If neither the fair value of a nonmonetary asset transferred nor the fair value of a nonmonetary asset received in exchange is determinable within reasonable limits, the recorded amount of the nonmonetary asset transferred from the enterprise may be the only available measure of the transaction.
27. A difference between the amount of gain or loss recognized for tax purposes and that recognized for accounting purposes may constitute a temporary difference to be accounted for according to *FASB Statement No. 109, Accounting for Income Taxes*.

Disclosure

28. An enterprise that engages in one or more nonmonetary transactions during a period should disclose in financial statements for the period the nature of the transactions, the basis of accounting for the assets transferred, and gains or losses recognized on transfers.⁷

⁷ Paragraph 12 of ARB No 51, Consolidated Financial Statements, includes additional disclosures that are preferred if a parent company disposes of a subsidiary during the year.

37. ARB 43, Chapter 7, Section B provides the following guidance (only the pertinent excerpts are included below):

As to the Recipient

5. One of the basic problems of accounting is that of income determination. Complete discussion of this problem is obviously beyond the scope of this chapter. Basically, income is a realized gain and in accounting is recognized, recorded, and stated in accordance with certain principles as to time and amount.

6. If there is an increase in the market value of his holdings, such unrealized appreciation is not income. In the case of a stock dividend or split-up, there is no distribution, division, or severance of corporate assets. Moreover, there is nothing resulting therefrom that the shareholder can realize without parting with some of his proportionate interest in the corporation.
7. The foregoing are important points to be considered in any discussion of the accounting procedures to be followed by the recipient of a stock dividend or split-up since many arguments put forward by those who favor recognizing stock dividends as income are in substance arguments for the recognition of corporate income as income to the shareholder as it accrues to the corporation, and prior to its distribution to the shareholder; the acceptance of such arguments would require the abandonment of the separate entity concept of corporation accounting.
8. The question as to whether or not stock dividends are income has been extensively debated; the arguments pro and con are well known.¹ The situation cannot be better summarized, however, than in the words approved by Mr. Justice Pitney in *Eisner v. Macomber*, 252 U.S. 189, wherein it was held that stock dividends are not income under the Sixteenth Amendment, as follows:

"A stock dividend really takes nothing from the property of the corporation and adds nothing to the interests of the stockholders. Its property is not diminished and their interests are not increased . . . the proportional interest of each shareholder remains the same. The only change is in the evidence which represents that interest, the new shares and the original shares together representing the same proportional interests that the original shares represented before the issue of the new ones."

¹ See, for instance, Freeman, "Stock Dividends and the New York Stock Exchange," *American Economic Review*, December, 1931 (pro), and Whitaker, "Stock Dividends, Investment Trusts, and the Exchange," *American Economic Review*, June, 1931 (con).

9. Since a shareholder's interest in the corporation remains unchanged by a stock dividend or split-up except as to the number of share units constituting such interest, the cost of the shares previously held should be allocated equitably to the total shares held after receipt of the stock dividend or split-up. When any shares are later disposed of, a gain or loss should be determined on the basis of the adjusted cost per share.
38. FIN 30 provides the following guidance (only the pertinent excerpts are included below):
1. The FASB has been asked whether gain or loss results from an involuntary conversion of a nonmonetary asset to monetary assets if the monetary assets are subsequently reinvested in a similar nonmonetary asset.¹ Generally, if a nonmonetary asset is involuntarily converted, gain or loss for the difference between the cost² of the nonmonetary asset and the amount of monetary assets received has been recognized in income in the period of the involuntary conversion. In other cases, that difference has been accounted for as an adjustment to the cost basis of a nonmonetary asset that is subsequently acquired as replacement property.

¹ The terms "nonmonetary" and "monetary" as used in this Interpretation have the same meaning as those terms have in *APB Opinion No. 29, Accounting for Nonmonetary Transactions*.

² As used in this Interpretation, the term cost refers to the cost of a nonmonetary asset or to its carrying amount, if different.

INTERPRETATION

2. Involuntary conversions of nonmonetary assets to monetary assets are monetary transactions for which gain or loss shall be recognized even though an enterprise reinvests or is obligated to reinvest the monetary assets in replacement nonmonetary assets. As discussed in paragraph 11 of this Interpretation, however, the requirement to recognize gain does not apply to certain involuntary conversions of LIFO inventories.³

³ Paragraph 14.b. of *APB Opinion No. 28, Interim Financial Reporting*, provides an exception for the liquidation of a LIFO inventory at an interim date if replacement is expected by year-end. Accordingly, that exception applies to an involuntary conversion of a LIFO inventory if replacement is expected by year-end.

3. In some cases, a nonmonetary asset may be destroyed or damaged in one accounting period, and the amount of monetary assets to be received is not determinable until a subsequent accounting period. In those cases, gain or loss shall be recognized in accordance with *FASB Statement No. 5, Accounting for Contingencies*.
4. Gain or loss resulting from an involuntary conversion of a nonmonetary asset to monetary assets shall be classified in accordance with the provisions of *APB Opinion No. 30, Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*.
5. Gain or loss resulting from an involuntary conversion of a nonmonetary asset to monetary assets that is not recognized for income tax reporting purposes in the same period in which the gain or loss is recognized for financial reporting purposes is a temporary difference for which comprehensive recognition of deferred taxes, as described in *FASB Statement No. 109, Accounting for Income Taxes*, is required.
39. EITF 86-29 provides the following guidance (only the pertinent excerpts are included below):

ISSUE

The basic principle contained in Opinion 29 is that the exchange of nonmonetary assets should be recorded at fair value. Certain modifications to that basic principle are contained in paragraphs 21 and 22 of Opinion 29. (The Task Force previously discussed certain aspects of those modifications in Issues No. 84-29, "Gain and Loss Recognition on Exchanges of Productive Assets and the Effect of Boot," and No. 85-43, "Sale of Subsidiary for Equity Interest in Buyer.")

The issues are (1) how the accounting for certain nonmonetary transactions should be affected by the magnitude of boot and (2) how the exceptions to the use of fair value should be applied.

EITF DISCUSSION

The Task Force reached a consensus that the decision as to whether an exchange involving products or properties held for sale (paragraph 21.a. of Opinion 29) should be measured using the recorded amounts or fair value depends on whether the products or properties received will be sold in the same line of business as the products or properties given up.

Further, the Task Force reached a consensus that the decision as to whether an exchange of similar productive assets (paragraph 21.b.) should be measured using the recorded amounts or fair value should be based on a "same line of business" test.

Some Task Force members expressed the view that the exchange of a controlled business (as defined in ARB 51) for an investment in an entity that is not controlled, but is in the same line of business, would not necessarily meet the definition of a similar productive asset and would have to be evaluated based on individual facts and circumstances. No consensus was reached on this issue.

The Task Force reached a consensus that a product or property held for sale and exchanged for a productive asset did not fall within the modifications to the basic principle of Opinion 29 (even if they were in the same line of business) and should be recorded at fair value.

The Task Force discussed an exchange of nonmonetary assets that would otherwise be based on recorded amounts but that also involves boot, reached a consensus that the transaction should be considered monetary (rather than nonmonetary) if the boot is significant, and agreed that "significant" should be defined as at least 25 percent of the fair value of the exchange. As a monetary transaction, both parties would record the exchange at fair value. If the boot in a transaction is less than 25 percent, the pro rata gain recognition guidance in paragraph 22 of Opinion 29 should be applied by the receiver of boot, and the payer of boot would not recognize a gain. The Task Force acknowledged that the ability to satisfactorily measure fair value is a prerequisite to the use of fair value.

The Task Force also discussed various exchanges involving investments accounted for by consolidation and by the equity method. The Task Force reached a consensus that an enterprise should account for an exchange of securities in which it acquires control of a subsidiary as a business combination in accordance with Opinion 16. An enterprise should account for an exchange of securities accounted for by consolidation or by the equity method for an investment in which it does not acquire control of a business but for which it will account by the equity method, as a nonmonetary transaction in accordance with Opinion 29. The Task Force noted that the provisions of this consensus were not intended to apply to exchanges involving joint ventures or the acquisition of a minority interest.

Additionally, several Task Force members and the SEC Observer expressed concern that a literal application of the consensus to an exchange in which an enterprise acquires control of a business could result in the recognition of gain on transactions that are in substance an exchange of similar productive assets or result in a 100 percent write-up of an asset in circumstances in which an entity has not transferred control of the asset. For example, Company A transfers an asset to Company B in exchange for shares of Company B. As a result of the exchange, Company A acquires control of Company B; Company A also indirectly retains control of the asset received by Company B. The Task Force agreed that Company A should account for this transaction as a partial sale (to minority shareholders of Company B), and gain recognition should be limited to that portion of the asset treated as sold. If Company B accounts for the exchange at fair value, profit applicable to the portion of the asset indirectly controlled by Company A would be eliminated in Company A's consolidation of Company B.

Further, the Task Force observed that the consensus is not intended to change the application of Opinion 16 or to eliminate the need to exercise judgment in those circumstances in which the substance of a transaction indicates that fair value accounting is not appropriate. That is, if Opinion 16 is to apply, the substance of the transaction must be a business combination.

STATUS

Issues relating to the exchange of real estate involving boot were discussed in Issue No. 87-29, "Exchange of Real Estate Involving Boot." For that Issue, the Task Force reached a consensus that a transaction involving an exchange of similar real estate that is considered a monetary transaction under Issue 86-29 because boot is at least 25 percent of the fair value of the

exchange would be allocated between two components: a monetary portion and a nonmonetary portion. (An exchange of similar real estate is defined in Issue 87-29 as an exchange of either (a) real estate held for sale in the ordinary course of business for real estate to be sold in the same line of business or (b) real estate not held for sale in the ordinary course of business for similar real estate.) The allocation between the monetary and nonmonetary portions of the transaction should be based on their relative fair values at the time of the transaction. For the receiver of boot, the monetary portion would be accounted for under Statement 66 as the equivalent of a sale of an interest in the underlying real estate, and the nonmonetary portion would be accounted for under paragraph 21 of Opinion 29. For the payer of boot, the monetary portion would be accounted for as an acquisition of real estate, and the nonmonetary portion would be accounted for under paragraph 21 of Opinion 29. Exhibit 87-29A presents an example of the application of the consensus reached on Issue 87-29.

No further EITF discussion is planned.

40. EITF 93-11 provides the following guidance (only the pertinent excerpts are included below):

ISSUE

In a barter transaction involving barter credits, an enterprise enters into a transaction to exchange a nonmonetary asset (for example, inventory) for barter credits. Those transactions may occur directly between principals to the transaction or include a third party whose business is to facilitate those types of exchanges (for example, a barter company).

The barter credits can be used to purchase goods or services, such as advertising time, from either the barter company or members of its barter exchange network. The goods and services to be purchased may be specified in a barter contract or limited to items made available by members of the exchange network. Some arrangements may require the payment of cash in addition to the barter credits to purchase goods or services. Barter credits also may have a contractual expiration date, at which time they become worthless.

The issue is whether Opinion 29 should be applied to an exchange of a nonmonetary asset for barter credits and, if so, the amount of profit or loss, if any, that should be recognized.

EITF DISCUSSION

The Task Force reached a consensus that transactions in which nonmonetary assets are exchanged for barter credits should be accounted for under Opinion 29. An impairment of the nonmonetary asset exchanged should be recognized prior to recording the exchange if the fair value of that asset is less than its carrying amount. The impairment should be measured as the amount by which the carrying amount of the asset exceeds its fair value. Recognition of an impairment loss also would be required in an exchange of assets or contractual rights not reported in the balance sheet (for example, operating leases) if the transferor is not relieved of primary liability for the related obligation. The definition of fair value in paragraph 13 of Statement 15 may be useful in determining the fair value of the nonmonetary asset. The Task Force noted that fair value should not be based on an estimate of the value of the barter credits to be received. After an impairment is recognized, the reduced carrying amount of the nonmonetary asset becomes its new cost. [Note: See STATUS section.]

If an exchange involves the transfer or assumption of an operating lease, impairment of that lease should be measured as the amount of the remaining lease costs (discounted rental payments and unamortized leasehold improvements) in excess of the discounted amount of probable sublease rentals for the remaining lease term. [Note: See STATUS section.]

The Task Force also reached a consensus that in reporting the exchange of a nonmonetary asset for barter credits, it should be presumed that the fair value of the nonmonetary asset exchanged is more clearly evident than the fair value of the barter credits received and that the barter credits should be reported at the fair value of the nonmonetary asset exchanged. The Task Force noted, however, that that presumption might be overcome if an entity can convert the barter credits into

cash in the near term, as evidenced by a historical practice of converting barter credits into cash shortly after receipt, or if independent quoted market prices exist for items to be received upon exchange of the barter credits. It also should be presumed that the fair value of the nonmonetary asset does not exceed its carrying amount unless there is persuasive evidence supporting a higher value. An impairment loss on the barter credits should be recognized if it subsequently becomes apparent that (1) the fair value of any remaining barter credits is less than the carrying amount or (2) it is probable that the enterprise will not use all of the remaining barter credits.

STATUS

In March 1995, the FASB issued Statement 121 which requires that long-lived assets and certain identifiable intangibles to be held and used be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Statement 121 establishes accounting standards for the recognition and measurement of impairment losses and sets forth an approach to determining an asset's fair value. Statement 121 also requires that long-lived assets and certain identifiable intangibles to be disposed of be reported at the lower of carrying amount or fair value less cost to sell.

In August 2001, the FASB issued Statement 144. Statement 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of and supersedes Statement 121.

No further EITF discussion is planned.

RELEVANT LITERATURE

Statutory Accounting

- Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy,
- SSAP No. 5—*Liabilities, Contingencies and Impairments of Assets*,
- SSAP No. 10—*Income Taxes*,
- SSAP No. 12—*Employee Stock Ownership Plans*,
- SSAP No. 13—*Stock Options and Stock Purchase Plans*,
- SSAP No. 25—*Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties*,
- SSAP No. 28—*Nonmonetary Transactions*,
- SSAP No. 30—*Investments in Common Stock (excluding investments in common stock of subsidiary, controlled, or affiliated entities)*,
- SSAP No. 68—*Business Combinations and Goodwill*,
- SSAP No. 72—*Surplus and Quasi-Reorganizations*,
- SSAP No. 91—*Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*,
- INT 99-21: *EITF 98-7: Accounting for Exchanges of Similar Equity Method Investments*,
- INT 00-12: *EITF 99-4: Accounting for Stock Received from the Demutualization of a Mutual Insurance Company*,
- INT 00-26: *EITF 98-3: Determining Whether a Nonmonetary Transactions Involves Receipt of Productive Assets or of a Business*,
- INT 00-29: *EITF 99-17: Accounting for Advertising Barter Transactions*, and
- INT 03-16: *Contribution of Stock*

Generally Accepted Accounting Principles

- *Accounting Principles Board Opinion No. 6, Status of Accounting Research Bulletins, paragraph 16*,
- *Accounting Principles Board Opinion No. 29, Accounting for Nonmonetary Transactions*,

- *Accounting Research Bulletin No. 43, Restatement and Revision of Accounting Research Bulletins, Chapter 7, Section B, Stock Dividends and Stock Split-ups,*
- *FASB No. 153, Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29,*
- *FASB Interpretation No. 30, Accounting for Involuntary Conversions of Nonmonetary Assets to Monetary Assets,*
- *FASB Emerging Issues Task Force Issue No. 86-29: Nonmonetary Transactions: Magnitude of Boot and the Exceptions to the Use of Fair Value,*
- *FASB Emerging Issues Task Force Issue No. 93-11: Accounting for Barter Transactions Involving Barter Credits,*
- *FASB Emerging Issues Task Force Issue No. 96-4: Accounting for Reorganizations Involving a Non-Pro Rata Split-off of Certain Nonmonetary Assets to Owners,*
- *FASB Emerging Issues Task Force Issue No. 98-3: Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business*
- *FASB Emerging Issues Task Force Issue No. 98-7: Accounting for Exchanges of Similar Equity Method Investments,*
- *FASB Emerging Issues Task Force Issue No. 99-4: Accounting for Stock Received from the Demutualization of a Mutual Insurance Company, and*
- *FASB Emerging Issues Task Force Issue No. 99-17: Accounting for Advertising Barter Transactions.*

STATE REGULATIONS

- No additional guidance obtained from state statutes or regulations.