

Interpretation of the Emerging Accounting Issues Working Group

INT 03-16: Contribution of Stock

ISSUE NULLIFIED BY SSAP NO. 25, SSAP NO. 68 AND SSAP NO. 95

INT 03-16 Dates Discussed

September 14, 2003; December 7, 2003

INT 03-16 References

SSAP No. 28—Nonmonetary Transactions (SSAP No. 28)

SSAP No. 46—Investments in Subsidiary, Controlled and Affiliated Entities (SSAP No. 46)

SSAP No. 68—Business Combinations (SSAP No. 68)

SSAP No. 72—Surplus & Quasi-Reorganizations (SSAP No. 72)

SSAP No. 88—Investments in Subsidiary, Controlled and Affiliated Entities, A Replacement of SSAP No. 46 (SSAP No. 88)

SSAP No. 95—Exchange of Nonmonetary Assets, A Replacement of SSAP No. 28—Nonmonetary Transactions (SSAP No. 95)

SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities, A Replacement of SSAP No. 88 (SSAP No. 97)

INT 03-16 Issue

1. Should a business combination that occurs through a capital contribution be treated differently than one that occurs through a purchase, specifically as regards the application of SSAP No. 68 and the admissibility of goodwill? SSAP No. 68 mixes its use of terms in its description of a business combination – purchase, acquisition, acquired, acquiring. Does the use of the term purchase in some sentences preclude the use of the Statutory Purchase Method for other than the purchase of an entity? SSAP Nos. 25, 72, and 95 discuss the issue of capital contributions, nonmonetary / nonreciprocal transfers, and transactions involving affiliates (both economic and non-economic transactions).

2. If a Company receives the stock of an affiliated company as a capital contribution, rather than through a purchase, is it appropriate to account for the combination using the Statutory Purchase Method of Accounting described in SSAP No. 68?

INT 03-16 Discussion

3. The working group reached a consensus that a capital contribution transaction does not meet the definition of a purchase transaction. SSAP No. 68 is not applicable to this transaction. The working group determined an interpretation of SSAP No. 68 is not necessary. The appropriate accounting guidance to be followed for this transaction can be found in SSAP No. 25, SSAP No. 95 or SSAP No. 97, depending on additional information about the transaction.

INT 03-16 Status

4. No further discussion is planned.