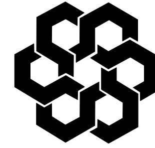

30 Cannon Street, London EC4M 6XH, United Kingdom
Tel: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411
Email: iasb@iasb.org Website: www.iasb.org

International Accounting Standards Board

This observer note is provided as a convenience to observers at IFRIC meetings, to assist them in following the IFRIC's discussion. Views expressed in this document are identified by the staff as a basis for the discussion at the IFRIC meeting. This document does not represent an official position of the IFRIC. Decisions of the IFRIC are determined only after extensive deliberation and due process. IFRIC positions are set out in Interpretations.

Note: The observer note is based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because the observer note is less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IFRIC meeting:	**May 2007, London**
Project:	**Plan to sell the controlling interest in a subsidiary (Agenda Paper 11(vi))**

Background

1. The IFRIC received a request to provide guidance on applying IFRS 5 when an entity is committed to a plan to sell the controlling interest in a subsidiary. The request considered situations in which the entity retained a non-controlling interest in its former subsidiary, taking the form of either an investment in an associate, an investment in a joint venture or a financial asset.

2. At its March 2007 meeting, the IFRIC discussed this issue for the first time. Below is an extract from the IFRIC Update:

   The IFRIC discussed the classification issue under IFRS 5. Paragraph 6 of IFRS 5 states: 'An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use' [emphasis added]. The IFRIC agreed with the staff analysis that having a plan involving loss of control over a subsidiary should trigger classification as held for sale of all the subsidiary's assets and liabilities. The reason is that a subsidiary meets the definition of a disposal group under IFRS 5 and is consolidated according to IAS 27 until control is lost. Since the subsidiary's assets and liabilities will not be presented individually, the IFRIC indicated that all of the subsidiary's assets and liabilities, and not just the portion expected to be disposed of, should be presented as

assets held for sale. The IFRIC did not find paragraph 15 of IAS 28 *Investments in Associates* relevant in the context of this issue.

Some IFRIC members raised the issue of whether and how the entity should catch up the depreciation that had ceased during the held for sale period when applying the equity method once the disposal is completed. The IFRIC asked the staff to analyse this question for the next meeting and provide an update on the FASB's project on a similar issue. The IFRIC also considered a request to provide guidance on measurement of the retained interest. The issue is whether losing control of an acquiree is a remeasurement event. Some members believed that the IFRIC should not prejudge the Board's conclusions in the second phase of the Business Combinations project. The IFRIC decided not to address that issue. The IFRIC also noted that continuing involvement in the form of a retained interest was not expected to affect classification of an asset held for sale as a discontinued operation under IFRS 5. The IFRIC noted this as likely to be an IFRS/US GAAP difference until a common definition of discontinued operations is found.

The IFRIC deferred to a future meeting its decision on the extent to which the above issues should be taken onto its agenda.

Staff analysis

3. The staff have undertaken the following researches:

   - Section 1: Issues raised at the last IFRIC meeting
   - Section 2: Update on the FASB's project
   - Section 3: Issues not addressed

Section 1 - Issues raised at the last IFRIC meeting

4. The staff analysed further the articulation between the following issues (see agenda paper 3 of the March 2007 IFRIC meeting):

   a) Are criteria for classification as held for sale met?

   b) What should be classified as held for sale when the criteria are met?

   c) During the held for sale period, how should the subsidiary's assets and liabilities be measured?

   […]

   e) After the sale of the controlling interest, how should the remaining investment be measured?

5. At its last meeting, the IFRIC noted that answering issue a) gives also the answer to issue b) and agreed with the staff that having a plan involving loss of control over a subsidiary should trigger classification as held for sale of all the subsidiary's assets and liabilities.

6. However, some IFRIC members raised concerns about issues c) and e).

Issue c) During the held for sale period, how should the subsidiary's assets and liabilities be measured?

7. The staff note that IFRS 5 addresses clearly issue c) as paragraph 15 of IFRS 5 states: "An entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell". As the subsidiary is a disposal group, the measurement requirements of IFRS 5 (paragraph 15 to 29) apply to all its assets and liabilities which are within the scope of the measurement requirements of this IFRS, from the point of classification as held for sale to deconsolidation arising from loss of control. If the fair value less costs to sell of the subsidiary's net assets (the disposal group) is lower than the carrying amount, an impairment loss should be recognised during the held-for-sale period. In that event, on disposal, there would be no material loss not previously recognised (see the illustrative example 2 set out in paragraphs 25 to 31 of this paper).

8. For example, if the disposal group includes an asset which falls within the scope of IAS 16, the entity, in its consolidated financial statements, should cease depreciating it during the held for sale period and measure it in accordance with IFRS 5.

   Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5 and the date that the asset is derecognised. [Extract from IAS 16.55]

   The measurement requirements of IFRS 5 apply to assets, either as individual assets or as part of a disposal group, covered by IAS 16 (those assets are not excluded by IFRS 5 paragraph 5).

9. After disposal (loss of control of the subsidiary), when the entity retains a significant influence and equity accounts for the ongoing investment, some believe that the entity should catch up the depreciation of that asset. That is, the amount equity accounted should reflect the depreciation which the subsidiary would have continued to recognise in its individual financial statements during the period where the parent intended to sell its controlling interest.

10. The staff do not share this view and believe that IAS 28 and IAS 27 determine the carrying amount of the investment retained in the consolidated financial statements at the date control is lost as explained below in paragraph 12. Equity

accounting applies to the period during which the entity has significant influence, and not to the period prior to that, during which the entity had control.

Issue e) After the sale of the controlling interest, how should the remaining investment be measured?

11. The staff note that the Boards discussed issue e) at their March 2006 meetings. The IASB Agenda Paper 2B – Section 3, set out in appendix 2 of this paper, notes that two approaches for measuring the gain or loss on the loss of control of a subsidiary, if the former parent retains a non-controlling equity investment in the former subsidiary, were considered when issuing the Exposure Draft on Business Combinations:

    - The first approach would be to measure the gain or loss using the carrying amount of the investment retained in the consolidated financial statements.
    - Under the second approach, if control of a subsidiary is lost and an investment in the former subsidiary is retained, that retained investment would be remeasured to its fair value on the date control is lost and any gain or loss would be recognized in consolidated net income.

12. The staff note that the first approach is consistent with current IFRSs. IAS 28 paragraph 11 refers to an investment in an associate being initially recognised at cost, and IAS 27 paragraph 32 requires the carrying amount of the investment at the date that the entity ceases to be a subsidiary to be regarded as the cost on initial measurement of a financial asset. Under this approach, the carrying amount of the non-controlling investment retained would be the share of net assets, adjusted to reflect the portion of the interest retained in the former subsidiary, at the date that the entity ceases to be a subsidiary, i.e. when control is lost. One consequence is that, if the former subsidiary was previously held for sale, the carrying amount of the disposal group at the date control is lost would have been affected by the measurement requirements of IFRS 5 for any assets and liabilities of the disposal group that are within its scope of measurement.

13. The staff also note that the Boards have decided to adopt the second approach in the Business Combinations project on the basis that losing control of the subsidiary is a remeasurement event. The staff believe that this approach should not be applied until the Business Combinations project is completed.

14. Below are two illustrative examples showing the two approaches considered by the Boards but with a held for sale period.

Illustrative example 1 (gain)

15. Company A holds a 70 per cent controlling interest in Company B. Company B holds a non-current asset within the scope of IAS 16.

16. On 31 December 20X2, Company A plans to reduce its interest in Company B to 10 per cent by selling 60 per cent of its interest in Company B. As a result of the planned disposal, Company A will lose control of Company B. The fair value of Company B as a whole is CU15,000 and its carrying amount in the consolidated financial statements is CU11,000. Costs to sell are estimated at CU100.

17. On 31 December 20X2, Company A classifies the disposal group (Company B's assets and liabilities) as held for sale and measures it at the lower of its carrying amount and fair value less costs to sell, that is CU11,000. Depreciation of Company B's asset ceases when the disposal group is classified as held for sale.

18. On 30 June 20X3, the disposal is completed for cash proceeds of CU9,000 (CU15,000 x 60 per cent) and the fair value of the retained investment in Company B is CU1,500.

Under the first approach (carry over model)

19. The carry over model takes the view that the non-controlling equity investment that Company A retains in Company B should be accounted for under the equity method and, therefore, initially recognised at cost. The carrying amount of that investment at the date that Company B ceases to be a subsidiary (that is on 30 June 20X3) is regarded as the cost on initial measurement of that investment.

20. On 30 June 20X3, the gain on disposal in the consolidated financial statements is calculated as follows:

	CU	
Cash proceeds	9,000	
Less A's share of net assets sold	6,600	(CU11,000 x 60 per cent)
Less costs to sell	100	
Gain on disposal	2,300	

21. Company B is no longer a subsidiary of Company A. As a consequence, all its assets and liabilities are derecognised. Company A accounts for the disposal in its consolidated financial statements as follows:

Dr Cash	CU9,000	
Dr Investment in B	CU1,100 (CU11,000 x 10 per cent)	
Dr Non-controlling interest of B	CU3,300	
Cr Net assets of B		CU11,000
Cr Gain on loss of control		CU2,300
Cr Liability for costs to sell		CU100

Under the second approach (remeasurement model)

22. The remeasurement model takes the view that losing control of Company B is a remeasurement event. Company A remeasures the non-controlling equity investment it retains in Company B to its fair value at the date control is achieved or lost, that is on 30 June 20X3. Any resulting gain or loss should be recognised in profit or loss.

23. On 30 June 20X3, the consolidated gain on disposal is calculated as follows:

	CU	
Cash proceeds	9,000	
Add retained investment in B	1,500	
Total	10,500	
Less A's share of net assets	7,700	(CU11,000 x 70 per cent)
Less costs to sell	100	
Gain on disposal	2,700	

24. Company A is no longer a subsidiary of Company B. As a consequence, all its assets and liabilities are derecognised. Company A accounts for the disposal in its consolidated financial statements as follows:

Dr Cash	CU9,000	
Dr Investment in B	CU1,500 (CU15,000 x 10 per cent)	
Dr Non-controlling interest of B	CU3,300	
Cr B's net assets		CU11,000
Cr Gain on loss of control		CU2,700
Cr Liability for costs to sell		CU100

Illustrative example 2 (loss)

25. Same example as example 1 but with a carrying amount (B's net assets) of CU18,000 on 31 December 20X2 instead of CU11,000.

26. On 31 December 20X2, Company A classifies the disposal group (Company B's assets and liabilities) as held for sale and measures it at the lower of its carrying amount and fair value less costs to sell, that is CU14,900 (CU15,000 less CU100). There is no change in the fair value between 31 December 20X2 and 30 June 20X3.

27. On 31 December 20X2, an impairment loss of CU3,100 (CU18,000 less CU14,900) is recognised and reduces the carrying amount of the non-current asset held by Company B. The impairment loss should be recorded as follows:

Dr Impairment loss	CU3,100	
Cr Net assets of B		CU3,000
Cr Liability for costs to sell		CU100

Under the first approach (carry over model)

28. On 30 June 20X3, the consolidated gain on disposal is calculated as follows:

	CU	
Cash proceeds	9,000	
Less A's share of net assets sold	9,000	(CU15,000 x 60 per cent)
Gain on disposal	0	

29. Company B is no longer a subsidiary of Company A. As a consequence, all its assets and liabilities are derecognised. Company A accounts for the disposal in its consolidated financial statements as follows:

Dr Cash	CU9,000	
Dr Investment in B	CU1,500 (CU15,000 x 10 per cent)	
Dr Non-controlling interest of B	CU4,500	
Cr Net assets of B		CU15,000

Under the second approach (remeasurement model)

30. On 30 June 20X3, the consolidated gain on disposal is calculated as follows:

	CU	
Cash proceeds	9,000	
Add retained investment in B	1,500	
Total	10,500	
Less A's share of net assets	10,500	(CU15,000 x 70 per cent)
Gain on disposal	0	

31. Company A is no longer a subsidiary of Company B. As a consequence, all its assets and liabilities are derecognised. Company A accounts for the disposal in its consolidated financial statements as follows:

Dr Cash	CU9,000	
Dr Investment in B	CU1,500 (CU15,000 x 10 per cent)	
Dr Non-controlling interest of B	CU4,500	
Cr B's net assets		CU15,000

Section 2 – Update on the FASB's project

32. At the March 2007 TA&I Committee meeting, Committee members redeliberated the Proposed FSP FAS 144-c. The TA&I Committee reaffirmed the view of the Proposed FSP that "An entity shall classify the entire long-lived asset as held-for-sale and cease depreciating the long-lived asset once the long-lived asset meets the held-for-sale criteria even if the entity plans to account for its direct or indirect interest in the long-lived asset under the equity method of accounting".

33. The TA&I Committee asked the staff to analyse further i) the circumstances where the criteria for classification as held for sale would be met in response to questions raised in comment letters[1] and, ii) whether any guidance on this issue should be issued once the Board's project on NCI is completed.

Section 3 – Issues not addressed

34. At the last meeting the classification issue for situations where control is lost for joint control was not discussed. Two views are put forward:

    (1) Some would argue that the entity, when becoming a venturer, would jointly control its former subsidiary and may apply proportionate consolidation under IAS 31. Classification as held for sale is therefore not appropriate.

    (2) Some would argue that joint control is not control and maintain that the triggering event for classification as held for sale is to have a plan involving loss of control. The accounting policy after the sale should not drive the classification when the disposal group is held for sale.

[1] See Appendix 4 of the IFRIC agenda paper 3 for the March 2007 meeting

35. The staff expect that the answer would be more the second view than the first one. However, the staff believe that this question should be brought to the Board as part of issues a) and b) (see paragraph 37 below).

Assessment of agenda criteria

36. This issue is widespread and has practical relevance. It is common that a group intends to dispose of some assets but wishes to retain a significant interest for at least a period of time. The staff is also aware of significant diversity in practice raised by the submitter, the FASB and some Agenda Committee members. The staff notes that, at least, there is potential diversity in the future as IFRSs are not altogether clear on these issues.

37. At the last meeting, the IFRIC agreed with the staff on issues a) and b) that having a plan involving loss of control over a subsidiary should trigger classification as held for sale of the subsidiary's assets and liabilities (the disposal group) and believed the classification requirements of IFRS 5 should be clarified by the Board. As well, the staff recommend that the Board, which is currently reviewing the definition of control within its project on Business Combinations, should also clarify situations where control is lost for joint control.

38. The staff believe that IFRS 5 addresses clearly issue c) which deals with the measurement issue during the held for sale period and that the IFRIC should not take the item onto its agenda. The staff note that this issue was not raised by the submitter.

39. At its last meeting, the IFRIC noted that continuing involvement in the form of a retained interest was not expected to affect classification of an asset held for sale as a discontinued operation under IFRS 5. The IFRIC also noted this as likely to be an IFRS/US GAAP difference until a common definition of discontinued operations is found. The staff recommend that the IFRIC should not take the item d) onto its agenda as the requirements of IFRS 5 are sufficiently clear.

40. At its last meeting, the IFRIC agreed with the staff that the measurement issue of the remaining investment after the sale is considered by the Board within its project on Business Combinations and decided not to address that issue (issue e).

41. Therefore, the relevant outcome should be:

Issues	**Dealt with by**
a) Are criteria for classification as held for sale met?	IASB
b) What should be classified as held for sale when criteria are met?	IASB
c) During the held for sale period, how should the subsidiary's assets and liabilities be measured?	(Not specifically asked by the submitter)
d) Is classification as discontinued operations relevant when the entity plans to retain a significant influence over its former subsidiary after the sale?	IFRIC (agenda rejection)
e) After the sale of the controlling interest, how shall the remaining investment be measured?	IASB (Business Combinations Phase II)
f) What information should be disclosed in the notes to the consolidated financial statements?	IASB (Business Combinations Phase II)

42. Questions to the IFRIC:

Do you agree with the staff recommendation and the agenda decision wording set out in appendix 1?

Appendix 1: Agenda decision wording

[Appendix omitted from observer notes]

Appendix 2: Agenda Paper 2B presented at the March 2006 IASB Board meeting, section 3 (information for observers)

SECTION 3: THE ACCOUNTING FOR LOSS OF CONTROL OF SUBSIDIARIES

156. This section analyzes the proposed accounting for the loss of control of a subsidiary in the FASB's and the IASB's NCI EDs. Those EDs propose that if control of a subsidiary is lost, any gain or loss should be recognized in net income/profit or loss. The gain or loss is measured as the difference between the following:

(a) The aggregate of (1) the fair value of the proceeds, if any, from the transaction that resulted in the loss of control and (2) **the fair value of any retained investment in the former subsidiary at the date control is lost.**

(b) The parent's interest in the former subsidiary's net assets at the date control is lost, which includes its share of the other comprehensive income of the former subsidiary.

If the subsidiary was partially owned, the noncontrolling interest's share of the carrying amount of the net assets of the former subsidiary would be derecognized against the carrying amount of the noncontrolling interest. Thus, no gain or loss related to the noncontrolling interest would be recognized.

Initial Deliberation Materials and the Boards' Basis for Conclusions

157. This issue was discussed at:

(a) The IASB's December 2004 Board meeting

(b) The FASB's December 4, 2002 Board meeting.

[Remainder of paragraph 157 not reproduced in observer notes.]

158. Similar to the Boards' conclusion in the BC ED that obtaining control of a business is a remeasurement event that should result in gain or loss recognition, the Boards decided that losing control of a subsidiary is also a remeasurement event that should result in gain or loss recognition. That notion is consistent with how a disposition of a subsidiary is accounted for currently under US GAAP or IFRS—the gain or loss is equal to the difference at the date of sale between the selling price and the carrying amount of the shares or net assets sold. However, what is different is

how the Boards proposed to account for the loss of control if the former parent retains a noncontrolling equity investment in the former subsidiary.

159. The Boards considered two approaches for measuring the gain or loss on the loss of control of a subsidiary if the former parent retains a noncontrolling equity investment in the former subsidiary. The first approach would be to measure the gain or loss using the carrying amount of the investment retained in the consolidated financial statements. However, the Boards decided that that approach is inconsistent with the view that losing control of a subsidiary is a significant economic event that changes the nature of the investment held in the subsidiary. It also is inconsistent with the decision reached for step acquisitions—that is, that upon obtaining control of a business, any previously held noncontrolling equity investment should be remeasured to fair value.

160. Under the second approach, if control of a subsidiary is lost and an investment in the former subsidiary is retained, that retained investment would be remeasured to its fair value on the date control is lost and any gain or loss would be recognized in consolidated net income. The Boards decided to adopt the second approach. That decision reflects the Boards' view that a decrease in a parent's ownership interest in a subsidiary to the point that the parent no longer controls that subsidiary is a significant economic event. The parent-subsidiary relationship ceases to exist and an investor-investee relationship begins that differs significantly from the former parent-subsidiary relationship. The Boards also believe that recognizing the retained investment at fair value is more representationally faithful and provides users of financial statements with better information about the value of the retained investment.

Comment Letter Responses

161. Respondents to the BC ED had mixed views on the proposed accounting for loss of control. Those views can be broken down into three categories. Those three categories are the same three alternatives the Boards considered during initial deliberations:

(a) Disagree with remeasuring any retained noncontrolling equity investments.

(b) Agree with remeasuring any retained noncontrolling equity investments and recognizing any gain or loss in *net income/profit or loss*.

(c) Agree with remeasuring any retained noncontrolling equity investments but would recognize any gain or loss in *other comprehensive income/directly in equity*.

Disagree with Remeasuring Any Retained Noncontrolling Equity Interests

162. Most respondents disagreed that any retained investment in a former subsidiary should be remeasured to fair value. They disagreed because they believe the principles for revenue and gain recognition in the conceptual framework would not be satisfied on the portion of the investment retained. The following comments were representative of the respondents that disagreed.

163. PwC (CL #12) stated:

> No. We do not believe that a retained investment in a former subsidiary should be re-measured as there is no exchange transaction with an unrelated third party involving the interest that has been retained. Re-measuring the retained investment loses the record of the invested capital in that investment along with the basis for evaluating the performance of that investment.

164. KPMG (CL #33) stated:

> We disagree with the Boards' proposal that loss of control should give rise to a remeasurement of the remaining investment at fair value with the adjustment recognized in profit or loss. We believe that upon the loss of control, gains and losses should be recognized for the portion of the investment that is sold. Any remaining investment would retain its carrying amount at that date and would be accounted for subsequently in accordance with appropriate existing GAAP (e.g., equity method investment, available-for-sale security, trading security).

> We agree that loss of control of a subsidiary is a significant economic event. However, we do not believe that such an event, in and of itself, justifies the recognition of revaluation gains and losses.

Agree with Remeasuring Any Retained Noncontrolling Equity Investments and Recognizing Any Gain Or Loss in Net Income/Profit or Loss.

165. A few respondents agreed with the proposed accounting for a loss of control of subsidiaries, but generally did not provide the rationale for their support. Those that did provide their rationale agreed with the Boards that loss of control is a remeasurement event that should result in gain or loss recognition. For example, Credit Suisse Group (CL #11) stated that "[w]e believe that the change in character from a controlled entity to either an equity method investment or a cost method investment is sufficient to support recognition of a gain or loss."

Agree with Recognizing Any Retained Noncontrolling Equity Interest but Would Recognize Any Gain or Loss in Other Comprehensive Income/Directly in Equity

166. A few respondents agreed with remeasuring the retained investment to fair value, but they believed the remeasurement adjustment should be recognized in other comprehensive income/directly in equity until the investment is sold. For example, Grant Thornton (CL #8), stated:

> We agree with remeasurement to fair value for the purpose of balance sheet recognition of the retained investment. However, we do not believe it is appropriate to recognize the difference between the fair value and the carrying amount of the retained interest in income because the amount has not been realized through an exchange with an outside party. We think these transactions are analogous to unrealized gains and losses on available-for-sale securities and therefore it would be more appropriate for them to be recorded in other comprehensive income until disposal of the retained interest.

Alternatives for Consideration

167. This memo considers the following three alternatives for measuring and recognizing any retained noncontrolling equity investment on the date control is lost:

a. ***Alternative One:*** *Remeasure* any retained noncontrolling equity investment to *fair value* on the date control is lost and recognize the remeasurement gain or loss in *net income/profit or loss*.

b. ***Alternative Two:*** *Remeasure* any retained noncontrolling equity investment to *fair value* on the date control is lost and recognize the remeasurement gain or loss in *other comprehensive income/directly in equity*.

c. ***Alternative Three:*** Do not remeasure any retained noncontrolling equity investment on the date control is lost.

Staff Recommendation

168. The staff continues to support the notion that obtaining control or losing control of an entity changes the nature of any previously held or retained investments, and thus is a remeasurement event. We, therefore, recommend that the Boards affirm the proposal in the NCI ED that any retained noncontrolling equity investment should be remeasured to fair value and that the adjustment should be recognized net income/profit or loss (Alternative One).

169. The staff would prefer not to recognize such remeasurement adjustments in other comprehensive income/directly in equity (Alternative Two), where they would be “trapped” indefinitely until the former parent sells the retained investment or even permanently if the former parent never sells the investment. We understand that respondents have expressed concern about inappropriate gain or loss recognition. However, we believe that those concerns should be alleviated through disclosures. The NCI EDs propose that if control of a subsidiary is lost, the former parent should disclose the amount of the gain or loss and the line item in the income statement where that gain or loss is recognized. Additionally, the NCI EDs propose that if the former parent retains a noncontrolling equity investment in the former subsidiary, the amount of the gain or loss related to the remeasurement of the retained investment to fair value should be separately disclosed. The staff believes the Boards should retain those disclosure requirements.

170. However, the staff believes this issue is the same as whether or how to recognize a remeasurement adjustment in a step acquisition (Issue 3, beginning in paragraph 100). The staff's primary recommendation is that the Boards be consistent with what they decide for recognizing the remeasurement adjustment in a step acquisition. If the Boards decide to recognize the remeasurement adjustment in a step acquisition in other comprehensive income/directly in equity, then the staff recommends that they also decide to recognize the remeasurement adjustment for the retained investment in a former subsidiary in other comprehensive income/directly in equity.

171. The staff notes that Alternative One also is consistent with the proposals in the FASB's Exposure Draft, *The Fair Value Option for Financial Assets and Financial Liabilities.* Paragraph 6 of that Exposure Draft states:

> On the date that a financial asset or financial liability is initially recognized or upon an event that gives rise to new-basis accounting at fair value under generally accepted accounting principles (GAAP), an entity may elect to use fair value as the initial and subsequent measurement attribute in accounting for that financial asset or financial liability….The election of the fair value option (a) is made on a contract-by-contract basis, (b) is irrevocable, and (c) requires that changes in fair value be recognized in earnings (or other performance indicators for entities that do not report earnings) as those changes occur. The election of the fair value option shall be supported by concurrent documentation or a preexisting documented policy for automatic election.

172. It is not clear to the staff how Alternatives Two or Three would be applied if an entity elected the fair value option.