

Statement of Financial Accounting Standards No. 10

Note: This Statement has been completely superseded

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Extension of “Grandfather” Provisions
for Business Combinations

(an amendment of APB Opinion No. 16)

October 1975



Financial Accounting Standards Board
of the Financial Accounting Foundation
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FAS 10: Extension of "Grandfather" Provisions for Business Combinations an amendment of APB Opinion No. 16

INTRODUCTION AND BACKGROUND INFORMATION

1. *APB Opinion No. 16*, "Business Combinations," which became effective for business combinations initiated after October 31, 1970, establishes conditions that must be met for a business combination to be accounted for by the pooling of interests method. Paragraph 99 of that Opinion, however, provides an exemption from certain of those conditions for a business combination between two companies with certain intercorporate investments at October 31, 1970 if "the combination is completed within five years after October 31, 1970." That exemption has been referred to as a "grandfather clause." AICPA Accounting Interpretations No. 15, 16, 17, and 26 of *APB Opinion No. 16* relate to that grandfather clause.

2. In addition, AICPA Accounting Interpretation No. 24 of *APB Opinion No. 16* contains a grandfather provision related to paragraph 46(a) of that Opinion and permits certain subsidiaries to account for business combinations by the pooling of interests method. In part, the Interpretation states:

Subsidiaries which had a *significant* outstanding minority interest at October 31, 1970 may take part in a pooling combination completed within five years after that date providing the significant minority also exists at the initiation of the combination. In addition, the combination must meet all of the other pooling conditions specified in paragraphs 46 through 48. . . .

For purposes of this Interpretation, a significant minority means that at least 20 percent of the voting common stock of the subsidiary is owned by persons not affiliated with the parent company.

This "grandfathering" is consistent with paragraph 99 of the Opinion and applies both to combinations where the subsidiary with a significant minority interest is the issuing corporation and those where it is the other combining company. However, it does not permit a pooling between a subsidiary and its parent.

3. The FASB presently has on its technical agenda a project entitled "Accounting for Business Combinations and Purchased Intangibles," which involves a reconsideration of *APB Opinion No. 16*. Consequently, accounting practices that would change if the grandfather provisions of that Opinion expire on October 31, 1975 might, once again, be changed as a result of the FASB's reconsideration of the Opinion. The Board believes that

because it is reconsidering *APB Opinion No. 16* the grandfather provisions of the Opinion and related AICPA Accounting Interpretations should continue in effect so as to maintain the status quo during the Board's reconsideration of that Opinion.

4. An Exposure Draft of a proposed Statement on "Extension of 'Grandfather' Provisions for Business Combinations" was issued on September 8, 1975. Twenty-two letters were received in response to that Exposure Draft. No substantive changes were suggested by respondents, and this Statement contains no substantive changes from the Exposure Draft.

5. The Board concluded that on the basis of existing data it could make an informed decision on the matter addressed in this Statement without a public hearing and that the effective date set forth in paragraph 8 is advisable.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

6. The five-year limitation in the grandfather provisions contained in paragraph 99 of *APB Opinion No. 16* and in the AICPA Accounting Interpretations cited in paragraphs 1-2 of this Statement is eliminated.

Amendment to Existing Pronouncement

7. The wording "the combination is completed within five years after October 31, 1970 and" in paragraph 99 of *APB Opinion No. 16* and similar wording in the AICPA Accounting Interpretations cited in paragraphs 1-2 of this Statement, imposing an October 31, 1975 expiration date for the grandfather provisions, are deleted.

Effective Date

8. This Statement shall be effective on November 1, 1975.

**The provisions of this Statement need
not be applied to immaterial items.**

This Statement was adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Marshall S. Armstrong, *Chairman*
Oscar S. Gellein
Donald J. Kirk
Arthur L. Litke
Robert E. Mays
Walter Schuetze

Robert T. Sprouse