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Financial Accounting Series

Statement of Financial Accounting Standards No. 153

Exchanges of Nonmonetary Assets

an amendment of APB Opinion No. 29

Financial Accounting Standards Board
of the Financial Accounting Foundation

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Summary

The guidance in APB Opinion No. 29, *Accounting for Nonmonetary Transactions,* is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in that Opinion, however, included certain exceptions to that principle. This Statement amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets 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 entity are expected to change significantly as a result of the exchange.

Reasons for Issuing This Statement

This Statement is the result of a broader effort by the FASB to improve the comparability of cross-border financial reporting by working with the International Accounting Standards Board (IASB) toward development of a single set of high-quality accounting standards. As part of that effort, the FASB and the IASB identified opportunities to improve financial reporting by eliminating certain narrow differences between their existing accounting standards. The accounting for nonmonetary exchanges was identified as an area in which the U.S. standard could be improved by eliminating certain differences between the measurement guidance in Opinion 29 and that in IAS 16, *Property, Plant and Equipment,* and IAS 38, *Intangible Assets.*

How the Changes in This Statement Improve Financial Reporting

Opinion 29 provided an exception to the basic measurement principle (fair value) for exchanges of similar productive assets. That exception required that some nonmonetary exchanges, although commercially substantive, be recorded on a carryover basis. This Statement eliminates the exception to fair value for exchanges of similar productive assets and replaces it with a general exception for exchange transactions that do not have commercial substance—that is, transactions that are not expected to result in significant changes in the cash flows of the reporting entity. By focusing the exception on exchanges that lack commercial substance, the Board believes this Statement produces financial reporting that more faithfully represents the economics of the transactions. Moreover, in making that amendment, the Board decided to use language that is similar to that used in IAS 16, noting that doing so would promote more consistent application of the requirements of those standards.

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an amendment of APB Opinion No. 29

December 2004

Financial Accounting Standards Board
of the Financial Accounting Foundation
401 MERRITT 7, PO BOX 5116, NORWALK, CONNECTICUT 06856-5116

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INTRODUCTION

1. This Statement addresses the measurement of exchanges of nonmonetary assets. It eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, and replaces it with an exception for exchanges that do not have commercial substance. This Statement specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Amendments to Opinion 29

2. Opinion 29 is amended as follows: [Added text is underlined and deleted text is struck out.]

a. Paragraph 3(c) and its related footnote 3:

> *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.~~[3]~~ 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.

~~[3]APB Statement No. 4, *Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises*, paragraphs 180–183, contains a more complete explanation of exchanges and nonreciprocal transfers.~~

b. Paragraph 4, as amended by FASB Statements No. 71, *Accounting for the Effects of Certain Types of Regulation*, and No. 141, *Business Combinations:*

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]
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] ~~and~~
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.*

~~This Opinion amends APB Statement No. 4, *Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises*, to the extent it relates to measuring transfers of certain nonmonetary assets.~~ 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.

c. Paragraph 20:

~~*Fair Value Not Determinable.* Accounting for a nonmonetary transaction should not be based on the fair values of the assets transferred unless those fair values are determinable within reasonable limits (paragraph 25).~~

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:

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).

[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.

d. Paragraph 21 and its related footnotes 5a and 6:

~~*Exchanges.* If the exchange is not essentially the culmination of an earning process, accounting for an exchange of a nonmonetary asset between an enterprise and another entity should be based on the recorded amount (after reduction, if appropriate, for an indicated impairment of value) of the nonmonetary asset relinquished.[5a] The Board believes that the following two types of nonmonetary exchange transactions do not culminate an earning process:~~

~~a. 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, and~~

b. ~~An exchange of a productive asset not held for sale in the ordinary course of business for a similar productive asset or an equivalent interest in the same or similar productive asset (similar productive asset is defined in paragraph 3 and examples are given in paragraph 7).~~[6]

[5a]~~An indicated impairment of value of a long-lived asset covered by FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* shall be determined in accordance with paragraph 29 of that Statement.~~

[6]~~The fact that an exchange of productive assets is not a taxable transaction for tax purposes may be evidence that the assets exchanged are similar for purposes of applying this Opinion.~~

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:

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.
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.

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.

[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.

[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.

[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.

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.

Amendments to Other Pronouncements

3. FASB Statement No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies,* is amended as follows:

a. Paragraph 44, as amended by FASB Statements No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* and No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections:*

> ~~In the following types of conveyances, gain or loss shall not be recognized at the time of the conveyance, except as otherwise provided:~~
>
> ~~a. A transfer of assets used in oil and gas producing activities (including either proved or unproved properties) in exchange for other assets also used in oil and gas producing activities. However, when proved properties are transferred in exchange for other assets also used in oil and gas producing activities, if an impairment loss is indicated under the provisions of FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* it shall be recognized in accordance with paragraph 29 of Statement 144.~~
> ~~b. A~~In 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, gain or loss shall not be recognized at the time of the conveyance.

b. Paragraph 47(e):

> A part of an operating interest owned may be exchanged for a part of an operating interest owned by another party. The purpose of such an arrangement, commonly called a joint venture in the oil and gas industry, often is to avoid duplication of facilities, diversify risks, and achieve operating efficiencies. ~~Such reciprocal conveyances represent exchanges of similar productive assets, and n~~No gain or loss shall be recognized by either party at the time of the transaction. In some joint ventures which may or may not involve an exchange of interests, the parties may share different elements of costs in different proportions. In such an arrangement a party may acquire an interest in a property or in wells and

related equipment that is disproportionate to the share of costs borne by it. As in the case of a carried interest or a free well, each party shall account for its own cost under the provisions of this Statement. No gain shall be recognized for the acquisition of an interest in joint assets, the cost of which may have been paid in whole or in part by another party.

4. FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,* is amended as follows:

a. Paragraph 4:

This Statement does not address transfers of custody of financial assets for safekeeping, contributions,[2] transfers of ownership interests that are in substance sales of real estate, ~~exchanges of equity method investments for similar productive assets,~~ or investments by owners or distributions to owners of a business enterprise. This Statement does not address subsequent measurement of assets and liabilities, except for (a) **servicing assets** and **servicing liabilities** and (b) **interest-only strips,** securities, retained interests in securitizations, loans, other receivables, or other financial assets that can contractually be prepaid or otherwise settled in such a way that the holder would not recover substantially all of its recorded investment and that are not within the scope of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities.* This Statement does not change the accounting for employee benefits subject to the provisions of FASB Statement No. 87, *Employers' Accounting for Pensions,* No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits,* or No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions.* This Statement does not change the provisions relating to leveraged leases in FASB Statement No. 13, *Accounting for Leases*, or money-over-money and wrap lease transactions involving nonrecourse debt subject to the provisions of FASB Technical Bulletin No. 88-1, *Issues Relating to Accounting for Leases.* This Statement does not address transfers of nonfinancial assets, for example, servicing assets, or transfers of unrecognized financial assets, for example, minimum lease payments to be received under operating leases.

5. Statement 144 is amended as follows:

a. Paragraph 27:

A long-lived asset to be disposed of other than by sale (for example, by abandonment, in an exchange <u>measured based on the recorded amount of the</u>

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 it is disposed of. Paragraphs 7–26 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 *component of an entity,*[15] paragraphs 41–44 shall apply to the disposal group at the date it is disposed of.

b. Paragraph 29 and its related footnote 17 and the heading preceding that paragraph:

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

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 similar 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 (asset group) 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 (disposal group) exceeds its fair value.[17]

[17]The provisions of this paragraph apply to nonmonetary exchanges that are not recorded at fair value under the provisions ~~those transactions described in paragraphs 21 and 23~~ of APB Opinion No. 29, *Accounting for Nonmonetary Transactions,* as amended.~~for which the accounting is based on the recorded amount (after reduction, if appropriate, for an indicated impairment of value) of a long-lived asset exchanged or distributed.~~

6. The provisions of this Statement partially nullify the following consensuses of the Emerging Issues Task Force (refer to the status sections of those Issues):

a. EITF Issue No. 01-2, "Interpretations of APB Opinion No. 29"

b. EITF Issue No. 98-3, "Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business."

Effective Date and Transition

7. The provisions of this Statement shall be effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after the date this Statement is issued. The provisions of this Statement shall be applied prospectively.

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:

Robert H. Herz, *Chairman*
George J. Batavick
G. Michael Crooch
Gary S. Schieneman
Katherine Schipper
Leslie F. Seidman
Edward W. Trott

Appendix

BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

Introduction

A1. This appendix summarizes considerations that Board members deemed significant in reaching the conclusions in this Statement. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

Background Information

A2. In September 2002, the FASB and the International Accounting Standards Board (IASB) (collectively, the Boards) committed to a broad effort to improve international comparability of financial reporting by working toward development of a single set of high-quality accounting standards. As part of that effort, the Boards jointly undertook a short-term project to eliminate certain narrow differences between the accounting pronouncements issued by the IASB and its predecessor and the accounting pronouncements issued by the FASB and its predecessors. Both Boards agreed to limit the scope of the short-term project to issues for which (a) the Boards' respective accounting pronouncements were different; (b) convergence to a high-quality solution would appear to be achievable in the short-term, usually by selecting between the existing standards of either the FASB or the IASB; and (c) the issue was not within the scope of other projects on the current agendas of either Board. The measurement basis of certain nonmonetary asset exchanges is one such difference that the FASB decided should be addressed in the short-term convergence project.

A3. In May 2002, the IASB issued an Exposure Draft, *Improvements to International Accounting Standards,* which, among other things, proposed changing aspects of the accounting for nonmonetary exchanges of assets in IAS 16, *Property, Plant and Equipment,* and IAS 38, *Intangible Assets.* The guidance in those two accounting standards, as in Opinion 29, is based on the principle that nonmonetary exchanges should be measured on the basis of the fair values of the assets exchanged. Also like Opinion 29, those two standards contained an exception to that basic principle for exchanges of similar productive assets. The IASB's Exposure Draft proposed eliminating the "similar productive assets" exception. After considering comments received from respondents on that Exposure Draft, the IASB affirmed its decision to eliminate that exception with the added proviso that exchanges lacking commercial substance do not qualify for recognition at fair value. In October 2002, the FASB added a project to its agenda to consider whether to amend Opinion 29 to similarly eliminate the exception to fair value measurement for exchanges of similar productive assets.

A4. In December 2003, the Board issued an Exposure Draft, *Exchanges of Productive Assets*, for a 120-day comment period, that proposed eliminating the exception to fair value accounting for nonmonetary exchanges of similar productive assets and replacing it with an exception for exchange transactions that lack commercial substance. The Board received 30 comment letters on the Exposure Draft. In September 2004, the Board redeliberated the issues identified in the Exposure Draft and concluded that on the basis of the existing information, it could reach an informed decision on the matters addressed in this Statement without a public hearing or roundtable meeting.

Basis for Conclusions

Replacing the "Similar Productive Assets" Exception

A5. In the deliberations that led to the Exposure Draft, the FASB noted that the guidance in Opinion 29 that previously required a determination of whether a nonmonetary exchange is an exchange of similar productive assets was difficult to apply. For example, EITF Issues 98-3 and 01-2 provided detailed guidance for assessing whether the similar productive assets exception should apply. The Board decided to adopt the IASB's approach, which bases the exception to the fair value measurement principle on an assessment of the commercial substance of the exchange. The Board concluded that the IASB's approach would (a) be more consistent with the fair value measurement principle on which Opinion 29 is based, (b) produce financial information that more faithfully represents the economics of the exchange, and (c) be more easily and consistently applied. Thus, the Board proposed amendments to Opinion 29 that would eliminate the similar productive assets exception and replace it with an exception for exchange transactions that lack commercial substance.

A6. A majority of the respondents to the Exposure Draft supported the proposed replacement of the similar productive assets exception, and the Board affirmed its decision in its redeliberations.

Evaluating Commercial Substance

A7. During the deliberations that led to the Exposure Draft, the FASB worked with the IASB to describe the notion of commercial substance. The Boards identified four perspectives from which a reporting entity could evaluate commercial substance: (a) attributes of the reporting entity making the exchange, (b) attributes of the assets being exchanged, (c) attributes of the counterparty to the exchange, and (d) attributes of the terms of the exchange. The FASB and the IASB both concluded that evaluating commercial substance from the reporting entity's perspective would be the most useful because such an evaluation would focus on significant changes in the economic situation of the reporting entity as a result of the exchange.

A8. Both Boards also concluded that changes to the economics of the reporting entity should be evaluated by assessing whether the entity's future cash flows are expected to significantly change as a result of the exchange—specifically, whether (a) the configuration of the future cash flows underlying the asset(s) received differs significantly from the configuration of those underlying the asset(s) transferred or (b) the entity-specific value of the asset(s) received differs significantly from the entity-specific value of the asset(s) transferred. The Board chose to require cash flow tests to determine whether commercial substance exists because it believes those cash flow tests provide objective evidence of a business purpose for the transaction.

A9. A number of respondents stated that they found the guidance for evaluating commercial substance (paragraph 21 of the Exposure Draft) difficult to apply. Paragraph 21(a) would have required that entities determine whether the configuration of the future cash flows of the asset(s) received differed from the configuration of the future cash flows of the asset(s) transferred and then compare that difference to the fair value of the assets exchanged. Respondents noted that it may not be possible to compare a change in configuration to the fair value of the assets exchanged because the change may not be expressed as a dollar amount (for example, a change in timing of cash flows). The Board agreed with those respondents and revised the guidance to eliminate the required comparison to the fair value of the assets exchanged.

A10. A number of respondents to the Exposure Draft that supported the proposed amendment of Opinion 29 suggested improvements to the proposed guidance for assessing the commercial substance of an exchange. Some suggested that the Board eliminate the cash flow tests and replace them with broader, more principles-based guidance that describes the qualitative characteristics of a transaction with commercial substance. After carefully considering that suggestion, the Board affirmed its decision to evaluate commercial substance using an approach that evaluates the risk, timing, and amounts of future cash flows and the entity-specific values of the exchanged assets. The Board believes that approach is more operational than one relying solely on qualitative assessments. The Board agreed, however, that in some cases a conclusive determination of commercial substance can be made based on a qualitative assessment rather than detailed calculations, and guidance to that effect is included in this Statement.

A11. The Exposure Draft proposed that a transaction would have commercial substance if the entity-specific value of *the portion of the reporting entity's operations affected by the transaction* changes as a result of the exchange. A number of respondents to the Exposure Draft commented on that requirement, noting that it was confusing absent a definition for the phrase *portion of the reporting entity's operations affected by the transaction.* In its redeliberations, the Board concluded that the use of that phrase was unnecessary because an entity-specific value of the asset(s) exchanged would, by definition, include all of the cash flow effects of the transaction on the entire entity. Therefore, the Board eliminated that phrase from this Statement and replaced it with a requirement to compare the entity-specific value of the asset(s) received with that of the asset(s) transferred.

A12. A number of respondents to the Exposure Draft suggested that this Statement include examples of transactions that meet the criteria for commercial substance as well as those that do not. The Board agreed that, in some instances, example transactions can be helpful to implement certain requirements. However, the Board decided not to include examples in this Statement because it believes that the additional guidance related to commercial substance sufficiently clarifies the meaning of that term. Additionally, the Board was concerned that example transactions might be viewed as bright lines and might restrict the appropriate use of judgment.

Tax Cash Flows

A13. The Board understands that the tax rules in the United States and some other tax jurisdictions incorporate a business-purpose doctrine. Under that doctrine, a transaction is not given effect for tax purposes unless it serves a legitimate business purpose other than tax avoidance. The Board noted that the interaction between the commercial-substance exception and the business-purpose doctrine could be viewed as circular if (a) the determination of commercial substance is predicated solely on changes in tax cash flows and (b) the tax business purpose asserted is the achievement of a specified financial reporting result. The Board addressed this potential circularity by prohibiting entities from asserting commercial substance if that assertion is predicated on tax cash flows that arise solely because the tax business purpose is based on achieving a specified financial reporting result.

Changes to the Scope of Opinion 29 and Amendments to Other Pronouncements

A14. *Amendments to Opinion 29.* The Exposure Draft proposed amending Opinion 29 to explicitly exclude from its scope exchange transactions that embody a transfer of assets to an entity in exchange for an interest in that entity. Although a number of respondents to the Exposure Draft recommended that this scope exception be eliminated, the Board affirmed its decision, noting that including those exchanges in the scope of Opinion 29 would presuppose answers to issues being addressed in its project on revenue recognition and in potential future projects on fresh-start measurement (new-basis accounting).

A15. The Board noted that certain transactions that appear to be nonmonetary exchanges are, in fact, not exchanges at all because the transferor does not relinquish control of a transferred asset such that derecognition is appropriate. The Board did not want this Statement to establish a less restrictive standard for gain recognition than the standard for gain recognition that is applicable to similar transactions involving monetary consideration. Therefore, the Exposure Draft proposed amending the term *exchange* as defined in Opinion 29 to clarify that a transfer of a nonmonetary asset is not considered an exchange for the purposes of this Statement unless the transferor has no continuing involvement in the transferred asset. Some respondents to the Exposure Draft stated that the phrase *no continuing involvement* establishes a higher threshold for nonmonetary exchanges than for exchanges involving monetary consideration. In response to those concerns, the Board revised that phrase to require that a transfer of a nonmonetary asset is an exchange only if the transferor has no *substantial* continuing involvement in the transferred asset.

A16. *Financial Accounting and Reporting by Oil- and Gas-Producing Companies.* In developing the Exposure Draft, the Board concluded that the accounting for exchange transactions described in paragraph 44(a) of Statement 19 was based on the accounting principles in Opinion 29. The Board therefore proposed an amendment to Statement 19 clarifying that those exchanges should be accounted for in accordance with Opinion 29, as amended. Several respondents to the Exposure Draft recommended that these transactions be excluded from the scope of this Statement. However, the Board affirmed its decision noting that these transactions are consistent with the description of an exchange of nonmonetary assets and, therefore, are appropriately included in the scope of this Statement.

A17. The Board also noted that the transaction described in paragraph 44(b) of Statement 19 is more closely analogous to an exchange of an asset for an equity interest in an entity than it is to an exchange of productive assets and, accordingly, decided that those transactions should continue to be accounted for under the provisions of Statement 19.

A18. The Board noted that the transactions discussed in paragraph 47(e) of Statement 19 are described as exchanges of similar productive assets. The Board considered whether to amend that paragraph to require that those transactions be accounted for under the provisions of Opinion 29 as amended by this Statement. The Board decided not to amend that paragraph, noting that it is difficult to distinguish “joint venture” transactions from similar transactions that would be included in the scope of Statement 19 because *joint venture* is not defined robustly in current guidance. The majority of respondents agreed with that decision, and the Board affirmed it in its redeliberations.

A19. *Transfers of Financial Assets.* The Exposure Draft proposed amending both Opinion 29 and Statement 140 to clarify that a transfer of an equity method investment for a similar productive asset should be accounted for in accordance with the provisions of Statement 140. The majority of respondents agreed with that decision, and the Board affirmed it in its redeliberations.

A20. FASB Statement No. 66, *Accounting for Sales of Real Estate,* provides guidance on when to derecognize a real estate asset sold and when to recognize profit on the sale of that asset. Statement 66 states that exchanges of real estate for other real estate should be accounted for under the provisions of Opinion 29. The Board considered whether to eliminate that scope exception in Statement 66 but decided not to do so because that Statement was designed to deal with transactions involving monetary consideration. The Board decided that the model established by this Statement is appropriate for evaluating exchanges of real estate for real estate.

International Convergence of Accounting Standards

A21. Although one objective of issuing this Statement is to further the Board's convergence efforts with the IASB, as discussed below, some differences in accounting for nonmonetary exchanges have not been eliminated by this Statement.

A22. The FASB noted that the exception in Opinion 29 for exchanges in which the fair value is *not determinable within reasonable limits* has the same intent as the IASB's exception for nonmonetary asset exchanges in which the fair value of the assets exchanged is *not reliably measurable.* The Board decided to retain its current terminology pending completion of its project on fair value measurement.

A23. Opinion 29 provides guidance for measuring the effects of exchanges of nonmonetary assets. IAS 16 and IAS 38 provide guidance for assessing the effects of exchanges of property, plant, and equipment and intangible assets. Both Boards acknowledge that those differences will likely result in scope differences between the Boards' standards for nonmonetary exchanges. The FASB and the IASB have agreed to use an iterative process to converge the scope of their guidance for nonmonetary exchanges. Under that process, the IASB issued its standard for nonmonetary asset exchanges with a narrower scope than this Statement. This Statement incorporates improvements in the notion of *commercial substance* as that term is used in IAS 16.

The IASB plans to add a project to its agenda to converge its standards, in terms of both scope and content, with that of the FASB. The Board noted that its decision to amend Statement 140 brought the scope of this Statement closer to the scope of the IASB Statements.

Effective Date and Transition

A24. The Board decided that the provisions of this Statement should be effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application of the provisions of this Statement is permitted so that entities based in the European Union that report under U.S. generally accepted accounting principles (GAAP) would have the opportunity to implement its provisions prior to the requirement to report under international financial reporting standards (IFRS).

A25. The Board concluded that prospective application of the provisions of this Statement is appropriate because retrospective application in many cases may be impracticable because it would require significant estimates as of a prior period. In some cases, it may not be possible to objectively distinguish between information that would have been available at the time the affected transactions or events would have been recognized in the financial statements and information that arose subsequent to recognition.

Benefits and Costs

A26. The mission of the FASB is to establish and improve standards of financial accounting and reporting for the guidance and education of the public, including preparers, auditors, and users of financial information. In fulfilling that mission, the Board endeavors to determine that a proposed standard will fill a significant need and that the costs imposed to meet that standard, as compared with other alternatives, are justified in relation to the overall benefits of the resulting information. Although the costs to implement a new standard may not be borne evenly, investors and creditors—both present and potential—and other users of financial information benefit from improvements in financial reporting, thereby facilitating the functioning of markets for capital and credit and the efficient allocation of resources in the economy.

A27. The Board believes that the benefits of a more conceptually based standard for accounting for nonmonetary exchanges should outweigh the effort that would be required on the part of preparers to determine whether a nonmonetary exchange has commercial substance. Further, the Board notes that costs would be reduced for entities that prepare financial statements for use in several jurisdictions, because convergence with international accounting standards will reduce the time and effort necessary to prepare reconciliations between U.S. GAAP and IFRS. The Board believes that financial reporting will be both simplified and improved by eliminating the inconsistencies between U.S. GAAP and IFRS.