

	Registrant	Subsidiary	Consolidating adjustments	Consolidated
Current assets	\$ 800	\$ 700	\$ 0	\$1,500
30% investment in affiliate	175	0	0	175
Investment in subsidiary	350	0	(350)	0
Other noncurrent assets	625	300	(100)	825
	\$1,950	\$1,000	\$ (450)	\$2,500
Current liabilities	\$ 600	\$ 400	\$ 0	\$1,000
Concurrent liabilities	375	150	0	525
Redeemable preferred stock	275	0	0	275
Common stock	110	1	(1)	110
Paid-in capital	290	49	(49)	290
Retained earnings	300	400	(400)	300
	700	450	(450)	700
	\$1,950	\$1,000	\$ (450)	\$2,500

The acquisition of the 100%-owned subsidiary was consummated on the last day of the most recent fiscal year. Immediately preceding the acquisition, the registrant had net assets of \$700, which included its equity in the undisputed earnings of its 30% investee of \$75. Immediately after acquiring the subsidiary's net assets, which had an historical cost of \$450 and a fair value of \$350, the registrant's net assets were still \$700 since debt and preferred stock totaling \$350 were issued in the purchase. The subsidiary has debt covenants which permit dividends, loans or advances, to the extent, if any, that net assets exceed an amount which is determined by the sum of \$100 plus 75% of the subsidiary's accumulated earnings.

Question 5: What is the amount of the subsidiary's restricted net assets? Are parent company footnote or schedule disclosures required?

Interpretive Response: Restricted net assets for purposes of the test are \$350, and both the parent company footnote and schedule disclosures are required.

The amount of the subsidiary's restrictions at year-end is \$400 [$\$100 + (75\% \times \$400)$]. The subsidiary's adjusted net assets after the push down of the consolidation entry to the subsidiary to record the noncurrent assets acquired at their fair value is \$350 ($\$450 - \100). Since the subsidiary's adjusted net assets (\$350) are less than the amount of its restrictions (\$400), restricted net assets are \$350. The computed percentages applicable to each of the disclosure tests is in excess of 25%. Therefore, both parent company footnote and schedule information are required. The percentage applicable to the footnote disclosure test is 61% [$(\$75 + \$350)/\$700$]. The computed percentage for the schedule disclosure is 50% ($\$350/\700).

3. Undistributed Earnings of 50% or Less Owned Persons

Facts: Rule 4-08(e)(2) of Regulation SX requires footnote disclosures of the amount of consolidated retained earnings which represents undistributed earnings of 50% or less owned persons (investee) accounted for by the equity method. The test adopted in ASR 302 to trigger disclosures about the registrant's restricted net assets (Rule 4-08(e)(3)) includes the parent's equity in the undistributed earnings of investees.

Question: Is the amount required for footnote disclosure the same as the amount included in the test to determine disclosures about restrictions?

Interpretive Response: Yes. The amount used in the test in Rule 4-08(e)(3) should be the same as the amount required to be disclosed by Rule 4-08(e)(2). This is the portion of the registrant's consolidated retained earnings which represents the undistributed earnings of an investee since the date(s) of acquisition. It is computed by determining the registrant's cumulative equity in the investee's earnings, adjusted by any dividends received, related goodwill amortized, and any related income taxes provided.

4. Application of Significant Subsidiary Test to Investees and Unconsolidated Subsidiaries

a. Separate Financial Statement Requirements

Facts: Rule 3-09 of Regulation SX requires the presentation of separate financial statements of unconsolidated subsidiaries and of 50% or less owned persons (investee) accounted for by the equity method either by the registrant or by a subsidiary of the registrant in filings with the Commission if any of the tests of a significant subsidiary are met at a 20% level.

Question 1: Are the requirements for separate financial statements also

applicable to an investee accounted for by the equity method by an investee of the registrant?

Interpretive Response: Yes. Rule 3-09 is intended to apply to all investees which are material to the financial position or results of operations of the registrant, regardless of whether the investee is held by the registrant, a subsidiary or another investee. Separate financial statements should be provided for any lower tier investee where such an entity is significant to the registrant's consolidated financial statements.

Question 2: How is the significant subsidiary test applied to the lower tier investee in the situation described in Question 1?

Interpretive Response: Since the disclosures provided by separate financial statements of an investee are considered necessary to evaluate the overall financial condition of the registrant, the significant subsidiary test is computed based on the materiality of the lower tier investee to the registrant consolidated. An example of the application of the assets test of the significant subsidiary rules to such an investee situation will illustrate the materiality measurement. A registrant with total consolidated assets of \$5,000 owns 50% of Investee A, whose total assets are \$3,800. Investee A has a 45% investment in Investee B, whose total assets are \$4,800. There are no intercompany eliminations. Separate financial statements are required for Investee A, and they are required for Investee B because the registrant's share of B's total assets exceeds 20% of consolidated assets [$(50\% \times 45\% \times \$4800)/\$5000 = 22\%$].

b. Summarized Financial Statement Requirements

Facts: Rule 4-08(g) of Regulation S-X requires summarized financial information about unconsolidated subsidiaries and 50% or less owned persons (investee) to be included in the footnotes to the financial statements if,