

# Emerging Issue Task Force

## Operating Procedures

### **Background and Authority of the EITF**

In 1982 the Structure Committee of the Financial Accounting Foundation produced a report on operating efficiency that indicated a need for more timely guidance on implementation questions. That report resulted in the formation of an advisory group, which evolved into the Emerging Issues Task Force (EITF). This task force was established pursuant to the FASB's Rules of Procedure and, as such, operates at the direction of the FASB.

### **Mission of the EITF**

The mission of the EITF is to assist the FASB in improving financial reporting through the timely identification, discussion, and resolution of financial accounting issues within the framework of existing authoritative literature.

The EITF is designed to promulgate guidance that reduces diversity in practice and to do so on a timely basis. It is designed to be a critical junction between the FASB and its constituents and, therefore, to reduce the need for the FASB to spend time and effort addressing narrow implementation, application, or accounting issues that can be analyzed within the framework of existing authoritative literature.

To be effective, the EITF should reach consensus quickly. While it is impossible to predict the time required to resolve any particular issue, as a general rule, the EITF should not address issues that are expected to take more than three or four meetings to resolve, since one major element of the EITF's mission is to produce timely guidance on current issues.

### **EITF Membership**

The EITF consists of no fewer than 10 and no more than 15 members (including its chairman, a nonvoting appointment of the FASB Chairman). The membership includes representatives from the following constituent groups.

- Public accounting firms
- Preparers of financial statements
- Users of financial statements.

The number of representatives of each constituent group is determined by the EITF Chairman.

The Chief Accountant of the Securities and Exchange Commission or his/her designee (such as the Deputy Chief Accountant) participates as an EITF Observer. The AcSEC Chairman or

his/her designee also participates as an EITF Observer. As discussed later, EITF Observers (SEC and AcSEC) do not vote but can participate in all other aspects of the meeting.

The EITF Chairman appoints the members of the EITF. Members are appointed to staggered five-year terms renewable at the EITF Chairman's discretion. In making appointments, the EITF Chairman balances the benefits of periodic rotation with the benefits of stability of membership and considers both the contributions of the existing EITF members and the expected contributions from potential new members.

In order for the EITF to fulfill its mission, members must attend meetings and be thoroughly prepared to participate constructively. The use of substitutes should be rare. However, when a member cannot attend an EITF meeting, he/she should contact the EITF Chairman in advance of the meeting if he/she wishes to identify a substitute. Use of a substitute is subject to the EITF Chairman's approval. A substitute who does not receive advance approval from the EITF Chairman will not be permitted to sit at the table, participate in the meeting, or vote. Neither EITF members nor their approved substitutes are permitted to vote by proxy.

An EITF member's failure to attend two meetings in a calendar year generally will be considered sufficient reason for membership termination, unless reasonable grounds for absences exist and there is an assurance of attendance at future meetings.

### **The EITF Agenda Committee**

The EITF Agenda Committee (the Agenda Committee) was established in May 1995 based on a recommendation from the FASB Committee to Review the EITF. The principal functions of the Agenda Committee are to approve issues to be added to the EITF agenda, to rank them as to urgency and importance, and to evaluate, on an ongoing basis, whether they continue to be appropriate agenda items. In addition, the Agenda Committee:

- Assesses whether specialists are needed to assist the EITF in resolution of an issue
- Determines whether some issues are so broad or fundamental, or are directly in conflict with an FASB project, that they should be addressed by the FASB rather than the EITF
- Proposes the agenda for each EITF meeting.

To ensure that the EITF identifies issues on a timely basis and to ensure that the EITF does not take up issues that could be better addressed by the FASB, in its consideration of potential issues, the Agenda Committee must:

- Solicit issues from all sources, including regulators, accounting firms, businesses, and users not represented on the EITF, and rank those issues as to urgency and importance
- Consider whether the FASB is currently addressing or plans to address the issue, and balance that consideration with the need to provide timely guidance
- Function so as to not delay the consideration of issues by the EITF, and meet sufficiently in advance of EITF meetings to enable the EITF to address new issues requiring consideration at the next meeting of the EITF.

While the Agenda Committee should consider all relevant information pertaining to a potential issue, in general, the following basic factors should be considered in determining whether to add an issue to the EITF agenda:

- The issue indicates that there are different interpretations of existing authoritative literature that have resulted or may result in diversity in financial reporting and there is a potential for that diversity to be widespread and have a significant effect on financial reporting
- Financial reporting would be improved through the elimination of the associated diverse reporting methods
- The issue signifies that there is conflicting guidance in existing authoritative literature
- The issue is a narrow implementation or application issue that can be efficiently resolved within the confines of existing authoritative literature
- The resolution of the issue is not dependent upon resolving a separate issue that is outside the purview of the EITF
- It is probable that the EITF will be able to resolve the issue in less than one year
- The practical experience of EITF members would contribute to the deliberation of the issue, sometimes with the assistance of subject matter experts
- If the issue relates to a current or planned FASB project, there is a pressing need to provide related guidance on a more timely basis than would be expected from the FASB's activities
- There is an opportunity through addressing the issue to converge U.S. practices with international practices.<sup>1</sup>

An evaluation of each of these factors should be included in the materials provided by the FASB staff in advance of the Agenda Committee meeting and documented in the Agenda Committee Report.

Key organizational characteristics of the Agenda Committee are as follows:

- The EITF Chairman appoints three EITF members to the Agenda Committee.
- The FASB Chairman appoints two Board members to the Agenda Committee.
- Four of the members of the Agenda Committee other than the EITF Chairman constitute a quorum.
- The EITF Observers (SEC and AcSEC) are nonvoting observers to the Agenda Committee.
- The EITF Chairman serves as the Agenda Committee Chairman without voting privileges, unless another vote is required to break a tie vote.
- A simple majority of the voting members of the Agenda Committee can approve an issue to be added to the EITF agenda. Likewise, a simple majority can recommend the removal of an EITF Issue from the EITF agenda. The EITF is not required to approve additions to the EITF agenda; however, any removals recommended by the Agenda Committee are subject to the usual EITF consensus requirements.
- If an Agenda Committee member is unable to participate in an Agenda Committee meeting, a substitute will not be permitted to participate.

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<sup>1</sup> See below for additional discussion on international convergence.

- The EITF receives the Agenda Committee Report and discusses that report at an EITF meeting. The report identifies issues addressed by the Agenda Committee, states the Agenda Committee's decision on those issues, summarizes the agenda for the EITF meeting, and presents an overview of the status of all EITF Issues on the EITF agenda.
- Individuals or organizations bringing a proposed issue to the EITF are encouraged to submit a written description of those issues to the EITF Chairman sufficiently in advance of each EITF meeting so that the issue can be discussed by the Agenda Committee.
- If the SEC Observer, the FASB Board, or the FASB staff believes there is only one acceptable answer to an issue, it should advise the Agenda Committee of its views during the Agenda Committee discussions.
- The Agenda Committee should evaluate the EITF agenda to ensure that the EITF Issues continue to be appropriate. EITF Issues for which no meaningful progress is being made or for which it becomes evident that only one plausible approach will be acceptable to the FASB or the SEC Observer should be considered for removal from the EITF agenda. Any decision to remove an EITF Issue from the EITF agenda must be approved by the EITF in accordance with its normal approval process for a consensus.
- Task Force members who are not members of the Agenda Committee are invited to listen in to the Agenda Committee discussion. Those members may not participate in the discussion.

### **Background Material on EITF Issues**

The FASB staff has the primary responsibility for the development of an Issue Summary. In certain circumstances, depending upon the availability of FASB staff resources and the perceived urgency of an EITF Issue, that responsibility may be delegated to others outside the FASB, subject to final approval of the related Issue Summary by the FASB staff. Any constituent may provide input with respect to the development of an Issue Summary.

For each EITF Issue, the EITF Chairman appoints one EITF member as liaison between the FASB staff and the EITF. During Issue Summary preparation, the FASB staff discusses the work plan with the respective liaison on each EITF Issue. The liaisons provide insight based on their experience and understanding of their respective EITF Issues and assist in developing alternative views as well as identifying potential questions that EITF members may have on the EITF Issues. The liaisons may seek other specialists who are knowledgeable about their respective EITF Issues when providing input on the EITF Issues. Liaisons are not responsible for "signing off" on their respective Issue Summaries; however, they should have reviewed their respective Issue Summaries prior to broad distribution.

The purpose of the Issue Summary is to describe an EITF Issue and provide information for Task Force members to understand the EITF Issue and evaluate alternative solutions. An Issue Summary should contain concise background information, a description of the specific issue to be considered by the Task Force (rather than a range of issues), and a thorough and balanced analysis of the EITF Issue. Each Issue Summary is a freestanding document. Subsequent to discussion of the Issue Summary at an EITF meeting, the Task Force may request additional

information on a particular aspect of the EITF Issue. In that event, an Issue Summary Supplement is prepared to elaborate on the particular aspect of the EITF Issue in question.

### **International Convergence**

International standard-setting activities should be considered by the EITF in developing and discussing all EITF Issues. Therefore, Issue Summaries should indicate whether existing international accounting standards (or related interpretive guidance) exist that address the same or a similar issue.

### **EITF Meetings**

Generally, EITF meetings are held four or five times a year on dates established at the beginning of the calendar year based on the expected availability of EITF members. Special meetings may be held to address specific issues, at the discretion of the EITF Chairman. All meetings are public, announced in *FASB Action Alert* on the FASB website, and available by audio webcast and telephone. Occasionally, the EITF Chairman may designate a portion of the meeting for the discussion of administrative topics, which, at the EITF Chairman's discretion, may be closed to public observation.

All FASB Board members are encouraged to attend and participate in all EITF meetings; however, they do not have voting privileges. This participation will assist EITF members in addressing potential concerns of FASB Board members. In addition, this participation will facilitate FASB Board members' understanding of the EITF Issue and afford a more efficient Board ratification.

Draft minutes of EITF meetings are made available to EITF members, EITF Observers (SEC and AcSEC), FASB Board members, and FASB staff within one week of each meeting. The draft minutes include a draft abstract for each EITF Issue on which the EITF reached a tentative conclusion, pending a review of public comment. Generally, final minutes are available by the second Thursday following the EITF meeting. The intent is for the FASB to formally act on (reject or ratify) any consensuses reached at an EITF meeting by no later than the second Wednesday following the EITF meeting.

### **EITF Consensus Positions**

A consensus on an EITF Issue is reached if no more than three of the voting members (or their approved substitutes) present at the meeting object to a proposed position (tentative conclusion) on an EITF Issue after the Issue has been exposed for public comment as a draft abstract. Individual members' disagreement or agreement with consensus positions should not be noted in the minutes when a consensus is reached.

- The goal of the EITF discussions is for the EITF members to reach a consensus on an EITF Issue.
- The support for the consensus reached should be articulated in a clear and succinct manner.
- If, at any point during the EITF deliberations on an Issue, the SEC Observer, the FASB Board, or the FASB staff develops the view that there is only one acceptable answer with respect to that EITF Issue, they should advise the EITF in that regard.
- A quorum of 10 EITF members (or their approved substitutes) must be present for either a tentative conclusion or a consensus vote.
- The EITF may request that the FASB provide guidance on an EITF Issue.
- Voting is done by a show of hands.
- The EITF Observers (SEC and AcSEC) do not vote, although they can participate in all other aspects of the meeting.
- The SEC Observer may make certain comments (referred to hereinafter as Observer Comments) during an EITF meeting to communicate SEC staff views regarding an issue being discussed. Additionally, the SEC Observer may make Observer Comments as to the applicability of EITF consensuses to SEC registrants. Observer Comments will be reflected in the relevant minutes and in *EITF Abstracts*. Observer Comments are not subject to the approval of the FASB and will be effective for SEC registrants prospectively unless otherwise noted.
- The FASB staff may make certain comments during an EITF meeting to communicate an FASB staff observation regarding an issue being discussed. Relevant FASB staff observations will be reflected in the respective minutes and in *EITF Abstracts*. FASB staff observations are subject to the approval of the FASB Board through the ratification process. The FASB staff will communicate at the time it makes its observation that it is a FASB staff observation.
- FASB Board members do not vote, although they can participate in all other aspects of the meeting.
- The EITF Chairman does not vote.
- Prior to reaching a consensus on an EITF Issue, a tentative conclusion must be established and then, based on that tentative conclusion, a draft abstract is issued for public comment with a minimum 15-day comment period.
- Prior to issuing the draft abstract for public comment, the FASB Board must ratify the tentative conclusion and approve of its exposure for public comment.
- The Task Force will review comments on a draft abstract at a future EITF meeting to determine whether to approve the tentative conclusion as a consensus.
- The EITF Chairman can elect to bring EITF members together through a webcast/public conference call meeting to approve as a consensus, the tentative conclusions in a draft abstract that has been exposed for public comment. A notice of a webcast/public conference call meeting is published on the FASB's website at least one week prior to the call. Approval of the tentative conclusions as a consensus during a webcast/public conference call meeting will follow the same protocol for approving a consensus at a regular EITF meeting (voting will occur by a voice vote).
- All EITF consensuses are subject to FASB Board ratification (majority of the FASB Board) at a public Board meeting held prior to the distribution of the final EITF minutes. An abstract is not considered category (c) of the GAAP hierarchy until ratified by the FASB

Board. FASB Board ratification involves approving the consensuses, as written, by the EITF.

EITF Issues frequently comprise multiple issues or subissues for consideration by the Task Force. In some cases, the Task Force may be able to reach a tentative conclusion on certain, but not all, of those issues during a meeting. In those circumstances, the EITF may express its views on those issues as a tentative conclusion (and not expose a draft abstract for public comment) pending completion of its discussions of the EITF Issue in its entirety. In that regard, the EITF considers the interrelationship of all of the issues including how its initial decision on one issue may be impacted by a subsequent decision on another issue. The EITF also considers the urgency of providing guidance (including transition guidance) on an issue prior to completing its deliberations of the entire EITF Issue.

### **Changes to EITF Consensuses**

From time to time, it may be necessary to clarify an existing EITF consensus through an editorial change. Those clarifications are presented to the EITF for its consideration in the form of a Proposed Consensus Modification. The proposed modification is discussed by the EITF and if no more than three of the EITF members (or their approved substitutes) present at the meeting object to the proposed modification, the revision is made final through the minutes process. A Consensus Modification is also subject to Board ratification.

Occasionally, the EITF may decide to codify several related EITF Issues into one new EITF Issue. Although existing consensuses cannot be changed as a result of the codification, certain modifications are permitted to conform the language of the existing consensuses within the context of the new EITF Issue.

A consensus cannot be overturned by the EITF at a later date once that EITF Issue has been completed. The consensus can be reversed only by discussion of a new EITF Issue, and the approval of a new consensus. That subsequent EITF Issue should not be devised to specifically counter a previous consensus. A subsequent EITF Issue should be based on new practice problems or new facts that have become known since the original consensus was reached.

### **Authority of EITF Consensuses**

The EITF is, de facto, a standard-setting body, although it was not originally designed to be. In 1992, the AICPA's Auditing Standards Board issued Statement on Auditing Standards No. 69, *The Meaning of "Present Fairly in Conformity With Generally Accepted Accounting Principles" in the Independent Auditor's Report*, and made EITF consensuses authoritative accounting literature for all companies (category (c) of the GAAP hierarchy). Effective with the first 2006 EITF meeting, the *EITF Abstracts* will be authoritative and the EITF minutes will support the consensuses in the *EITF Abstracts*. Prior to that date, the EITF minutes are authoritative.

Because EITF consensuses are category (c) of the GAAP hierarchy, EITF Issues are sometimes nullified or superseded entirely or in part by category (a) and category (b) pronouncements, such as FASB Statements and FASB Interpretations. As part of the development of a statement or an interpretation, the FASB staff reviews all relevant EITF Issues to determine whether any EITF Issues will be affected.

### **Transition Guidance**

The EITF should consider the basis for conclusions in FASB Statement No. 154, *Accounting Changes and Error Corrections*, when deliberating transition provisions for EITF Issues. These provisions, however, are established on an Issue-by-Issue basis by selecting the most appropriate transition for the specific circumstances. If no transition guidance is provided, an entity will be required to apply a consensus through retrospective application of that guidance to all prior periods, unless it is impractical to do so.

Basic transitional guidance is discussed in *EITF Abstracts*, Topic No. D-1, "Implications and Implementation of an EITF Consensus."

### **Staff Announcements Made at EITF meetings**

From time to time, the FASB and SEC staffs have used EITF meetings as a forum for making announcements that may or may not relate to a particular EITF Issue. Announcements are often interpretive guidance of existing GAAP literature. Making an announcement at an EITF meeting permits the staffs to take advantage of the timely nature of the distribution of information associated with the EITF, which is especially important because announcements usually arise when diversity in practice may be developing. It also allows the announcement to be published timely in the EITF minutes and then in *EITF Abstracts*, under Appendix D (often referred to as *D-Topics*).

The procedure for making a staff announcement includes:

- If time permits, submission of a draft proposed staff announcement that includes the rationale for the announcement to the Agenda Committee in advance of the EITF meeting.
- If time permits, an Agenda Committee discussion of the proposed staff announcement with the SEC staff and/or FASB staff to consider whether the announcement is warranted or whether the subject of the announcement should be an EITF Issue.
- If the announcement is warranted, distribution of a final draft of the proposed announcement to the EITF prior to the EITF meeting.
- An opportunity for EITF members to discuss the proposed staff announcement and provide additional input at the EITF meeting at which the announcement is made.
- Based on the EITF discussion, a decision by the SEC staff or FASB staff to either finalize the staff announcement and publish that announcement in the EITF minutes or reconsider the announcement and what further actions should be taken, if any. Note that SEC staff announcements are not subject to the approval of the FASB Board and will be effective for

SEC registrants prospectively beginning from the date of the announcement unless otherwise noted. FASB staff announcements are subject to the approval of the FASB Board through Board ratification

### **Working Groups/Advisory Groups/Resource Groups**

It is common for the EITF to request that a working group, an advisory group, or a resource group (collectively referred to hereinafter as a working group) be created to assist the EITF in the resolution of an issue that requires specialized technical knowledge or expertise or when an EITF Issue is consuming too much of the EITF's time. An EITF member may be appointed by the EITF Chairman to be chairman of a working group. Members are appointed by the lead FASB staff member assigned to the EITF Issue, after considering discussions with the EITF Chairman. In making appointments, recommendations from EITF members will be considered. The SEC Observer may appoint an SEC staff representative to participate in each working group.

Working groups meet to discuss the accounting issues and formulate a recommendation in a Working Group Report (Issue Summary Supplement) for the EITF to consider at a subsequent EITF meeting. Working group meetings are closed to public observation.

For certain EITF Issues, it may be deemed appropriate for a working group member or other subject-matter expert to participate in an EITF meeting as a resource to provide clarification to EITF members with respect to the EITF Issue and/or the related alternative views.

### **Dissemination of EITF Decisions**

The EITF Section of the FASB Website includes:

- Approved EITF meeting agendas, posted in advance of each meeting, under the Open Issues and Proposed Agenda section
- A synopsis and the status for each EITF Issue discussed in the past year and for each EITF Issue currently on the EITF agenda, under the Description and Status of Current Issues section
- A synopsis for each EITF Issue recently added to the EITF agenda by the Agenda Committee, under the Description and Status of Current Issues section
- The minutes of each EITF meeting, under the EITF Meeting Materials and Minutes section
- A draft abstract for each EITF Issue on which the EITF has reached a tentative conclusion along with the posting date and the comment period (minimum 15 days)
- The final abstract for each EITF Issue for which a draft abstract has been exposed and the proposed position (tentative conclusion) has been approved as a consensus and that consensus has been ratified by the Board
- Staff announcements that were discussed in the past year, under the Recent Staff Announcements section.

- A current roster of members, under the General Information section (only the members' names and affiliations are included).

### **Other Methods of Dissemination**

- *FASB Action Alert* summarizes the conclusions of the EITF after each EITF meeting and summarizes Board actions with respect to EITF consensuses following the related Board meeting
- *FASB Action Alert* announces the EITF Issues newly added to the EITF agenda following the distribution of the Agenda Committee Report to Task Force members
- Minutes for any EITF meeting may be purchased individually from the FASB Order Department
- Background materials for any EITF Issue may be purchased individually from the FASB Order Department
- *EITF Abstracts* is published following each EITF meeting and is available as a loose-leaf subscription service.