

FASB STAFF POSITION

No. SOP 90-7-1

Title: An Amendment of AICPA Statement of Position 90-7

Date Posted: April 24, 2008

Objective

1. This FASB Staff Position (FSP) resolves the conflict between the guidance requiring early adoption of new accounting standards for entities required to follow fresh-start reporting under AICPA Statement of Position 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code*, and other authoritative accounting standards that expressly prohibit early adoption.

Background

2. SOP 90-7 was issued in 1990 to provide guidance on financial reporting by entities that file petitions with the Bankruptcy Court and expect to reorganize as a going concern under Chapter 11 of Title 11 of the United States Code. SOP 90-7 has remained the primary guidance for reporting by entities in Chapter 11 reorganization since that time.

3. Under SOP 90-7, entities meeting certain criteria are required to adopt fresh-start reporting. Paragraph .38 of SOP 90-7 requires, in part, that entities adopting fresh-start reporting apply the following principle:

Changes in accounting principles that will be required in the financial statements of the emerging entity within the twelve months following the adoption of fresh-start reporting should be adopted at the time fresh-start reporting is adopted.

4. At the time SOP 90-7 was issued, new accounting standards were being issued with effective dates that encouraged early adoption. However, in several recent standards, the FASB decided to prohibit early adoption. In practice, questions have been raised as to

whether an emerging entity that is applying fresh-start reporting should follow the provisions of SOP 90-7 in early adopting new accounting standards that will be effective within 12 months from the adoption of fresh-start reporting or whether the emerging entity should follow the effective date guidance of a new accounting standard when the new accounting standard prohibits early adoption.

<p>All paragraphs in this FSP have equal authority. Paragraphs in bold set out the main principles.</p>

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Scope

5. **The guidance in this FSP applies to an entity that is required to apply fresh-start reporting under SOP 90-7.**

Recognition and Measurement

6. **This FSP amends SOP 90-7 to nullify the requirement in paragraph .38 of SOP 90-7 regarding changes in accounting principles.** Under paragraph .38, changes in accounting principles that will be required in the financial statements of the emerging entity within the 12 months following the adoption of fresh-start reporting were required to be adopted at the time fresh-start reporting is adopted. As a result of the amendment, an entity emerging from bankruptcy that applies fresh-start reporting should follow only the accounting standards in effect at the date fresh-start reporting is adopted, which include those standards eligible for early adoption if an election is made to adopt early.

Effective Date and Transition

7. This FSP shall be effective for financial statements issued subsequent to the date of issuance of this FSP.

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

This FSP 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
Thomas J. Linsmeier
Leslie F. Seidman
Lawrence W. Smith
Donald M. Young

Appendix

Amendment to SOP 90-7

A1. SOP 90-7 is amended as follows: [Deleted text is ~~struck out.~~]

[Note: This appendix shows the amendments to paragraph .38 in effect before and after the effective date of FASB Statement No. 141 (revised 2007), *Business Combinations*. This FSP does not amend the effective date provisions of Statement 141(R).]

a. Paragraph .38, prior to the effective date of Statement 141(R):

Entities that adopt fresh-start reporting in conformity with paragraph .36 should apply the following principles:

- The reorganization value of the entity should be allocated to the entity's assets in conformity with the procedures specified by FASB Statement No. 141, *Business Combinations*. If any portion of the reorganization value cannot be attributed to specific tangible or identified intangible assets of the emerging entity, such amounts should be reported as goodwill in accordance with paragraph 6 of FASB Statement No. 142, *Goodwill and Other Intangible Assets*.
- Each liability existing at the plan confirmation date, other than deferred taxes, should be stated at present values of amounts to be paid determined at appropriate current interest rates.
- Deferred taxes should be reported in conformity with generally accepted accounting principles. Benefits realized from preconfirmation net operating loss carryforwards should first reduce reorganization value in excess of amounts allocable to identifiable assets and other intangibles until exhausted and thereafter be reported as a direct addition to paid-in capital.
- ~~Changes in accounting principles that will be required in the financial statements of the emerging entity within the twelve months following~~

~~the adoption of fresh start reporting should be adopted at the time fresh start reporting is adopted.~~

- b. Paragraph .38, as amended by paragraph F23 of Statement 141(R):

Entities that adopt fresh-start reporting in conformity with paragraph .36 should apply the following principles:

- The reorganization value of the entity should be assigned to the entity's assets and liabilities in conformity with the procedures specified by FASB Statement No. 141 (revised 2007), *Business Combinations*. If any portion of the reorganization value cannot be attributed to specific tangible or identified intangible assets of the emerging entity, such amounts should be reported as goodwill in accordance with paragraph 6 of FASB Statement No. 142, *Goodwill and Other Intangible Assets*.
- Deferred taxes should be reported in conformity with generally accepted accounting principles. If not recognizable at the plan confirmation date, initial recognition (that is, by elimination of the valuation allowance) of tax benefits realized from preconfirmation net operating loss carryforwards and deductible temporary differences should be reported as a reduction to income tax expense.
- ~~Changes in accounting principles that will be required in the financial statements of the emerging entity within the twelve months following the adoption of fresh start reporting should be adopted at the time fresh start reporting is adopted.~~