

FASB Emerging Issues Task Force

Issue No. 06-9

Title: Reporting a Change in (or the Elimination of) a Previously Existing Difference between the Fiscal Year-End of a Parent Company and That of a Consolidated Entity or between the Reporting Period of an Investor and That of an Equity Method Investee

Document: Issue Summary No. 1, Supplement No. 1*

Date prepared: October 26, 2006

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Date previously discussed: September 7, 2006

Previously distributed EITF materials: Issue Summary No. 1, dated August 14, 2006

References:

FASB Statement No. 154, *Accounting Changes and Error Corrections* (FAS 154)

AICPA Accounting Research Bulletin No. 51, *Consolidated Financial Statements* (ARB 51)

APB Opinion No. 18, *The Equity Method of Accounting For Investments in Common Stocks* (APB 18)

* The alternative views presented in this Issue Summary Supplement are for purposes of discussion by the EITF. No individual views are to be presumed to be acceptable or unacceptable applications of Generally Accepted Accounting Principles until the Task Force makes such a determination, exposes it for public comment, and it is ratified by the Board.

Background

1. At the September 7, 2006 EITF meeting, the Task Force reached a tentative conclusion on this Issue and directed the staff to pursue the issuance of a draft abstract for public comment. The draft abstract was posted to the website on September 26, 2006, with a comment period that ended October 13, 2006.

Formal Comments Received on the Draft Abstract

2. No comment letters were received on the draft abstract. At the November 16, 2006 EITF meeting, the Task Force will have the opportunity to redeliberate the elements of the tentative conclusion in the draft abstract and address the issues raised in this Issue Summary Supplement. The Task Force will then be asked to affirm the tentative conclusion as a consensus.

Other Comments Received on the Draft Abstract

3. The staff received one other comment on the draft abstract in relation to the tentative conclusion reached by the Task Force on the effective date. A respondent suggested that the staff consider modifying the effective date in the draft abstract to include interim or annual periods ending after Board ratification in order to eliminate potential diversity among preparers if an entity elects to make the change in an interim period prior to the effective date of the draft abstract. The staff recommends that the Task Force make this change and has included this recommendation in the marked draft abstract included in Exhibit 06-9A in addition to other suggested changes to the wording that the staff has determined are not significant enough to warrant specific consideration.

Appendix 06-9A

EITF ABSTRACTS (DRAFT⁺)

Issue No. 06-9

Title: Reporting a Change in (or the Elimination of) a Previously Existing Difference between the Fiscal Year-End of a Parent Company and That of a Consolidated Entity or between the Reporting Period of an Investor and That of an Equity Method Investee

Dates Discussed: September 7, 2006; [November 15–16, 2006]

References: FASB Statement No. 154, *Accounting Changes and Error Corrections*
AICPA Accounting Research Bulletin No. 51, *Consolidated Financial Statements*
APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*

ISSUE

1. To allow for more timely preparation of consolidated financial statements, ARB 51 and Opinion 18 allow an entity to consolidate the results of a entity's operations (or recognize changes in the net assets of an equity method investment) as of, and for a period ending not more than three months prior to the parent's or investor's fiscal year-end. In practice, questions have arisen as to how a parent or investor should recognize a change to the reporting year-end of either a consolidated entity or an equity method investee. That change may include a change in or the elimination of the previously existing difference (lag period) due to the parent's or investor's ability to obtain financial results from a reporting period that is more consistent with, or the same as, that of the parent or investor.
2. The issue is how a parent should recognize the effect of a change to (or the elimination of) an existing difference between the parent's reporting period and the reporting period of a consolidated entity or between the reporting period of an investor and the reporting period of an equity method investee.

Scope

3. The scope of this Issue applies to all entities that change (or eliminate) a previously existing difference between the reporting periods of a parent and a consolidated entity or an investor and an equity method investee. This Issue does not apply in situations in which a parent company changes its fiscal year-end.

EITF DISCUSSION

⁺ ~~This draft abstract is being exposed for a public comment period that will end on October 13, 2006.~~

4. The Task Force reached a [consensus] that a parent or an investor should report a change to (or the elimination of) a previously existing difference between the parent's reporting period and the reporting period of a consolidated entity or between the reporting period of an investor and the reporting period of an equity method investee in the parent's or investor's consolidated financial statements as a change in accounting principle in accordance with the provisions of Statement 154. The Task Force noted that while Statement 154 generally requires voluntary changes in accounting principles to be reported retrospectively, retrospective application is not required if it is impracticable to apply the effects of the change retrospectively pursuant to paragraph 11 of Statement 154. In reaching its decision, the Task Force believes that the change or elimination of a lag period represents a change in accounting principle as defined in Statement 154.

Disclosure

5. The Task Force reached a [consensus] that an entity should make the disclosures required pursuant to Statement 154.

Transition

6. The [consensus] in this Issue should be effective for future changes occurring in interim or annual periods ending after beginning in the first interim or annual reporting periods following Board ratification. Earlier application of this guidance is permitted in periods for which financial statements have not yet been issued.

Board Ratification

7. At its [November 29, 2006] meeting, the Board ratified the [consensus] reached by the Task Force in this Issue.

STATUS

8. No further EITF discussion is planned.