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MINUTES OF THE SEPTEMBER 11, 2007 MEETING OF THE FASB EMERGING ISSUES TASK FORCE

Location: FASB Offices
401 Merritt 7
Norwalk, Connecticut

Tuesday, September 11, 2007
Starting Time: 9:00 a.m.
Concluding Time: 2:45 p.m.

Task Force Members Present:
Russell G. Golden (Chairman)
Mark M. Bielstein
Jack T. Ciesielski
Mitchell A. Danaher
Joseph Graziano
Jay D. Hanson
Stuart H. Harden
Jan R. Hauser
David L. Holman
James A. Johnson
* Carl Kampel[1]
Matthew L. Schroeder
Ashwinpaul C. (Tony) Sondhi
Lawrence E. Weinstock
James J. Leisenring (IASB Observer)
James L. Kroeker (SEC Observer)

Task Force Members Absent:
Frank H. Brod

*For certain issues only.

[1] Mr. Kampel also served as the AcSEC Observer.

Others at Meeting Table:
Robert H. Herz, FASB Board Member
George J. Batavick, FASB Board Member
G. Michael Crooch, FASB Board Member
Leslie F. Seidman, FASB Board Member
Larry W. Smith, FASB Board Member
Donald M. Young, FASB Board Member
Susan M. Cosper, FASB Senior Practice Fellow
Richard C. Paul, FASB Practice Fellow
Shelly C. Luisi, SEC Senior Associate Chief Accountant
Robert Uhl, Deloitte & Touche LLP
* Ronald W. Maples, FASB Practice Fellow
* Christopher P. Bolash, FASB Practice Fellow
* John L. Sarno, FASB Practice Fellow
* Brian C. Stevens, FASB Practice Fellow
* Sheri E. Wyatt, FASB Practice Fellow
* Shea H. Malcolm, FASB Practice Fellow

* For certain issues only.

ADMINISTRATIVE MATTERS

- Prior EITF Meeting Minutes: An FASB staff member solicited objections to the final minutes of the June 14, 2007 meeting. No objections were noted.

- The Task Force discussed the report on the EITF Agenda Committee meeting held on July 20, 2007. The Agenda Committee considered three issues and took the following actions:

a. *Consideration of Certain Terms in Derivative Contracts When Determining Whether an Instrument Is Indexed to a Company's Own Stock.* The Agenda Committee decided to add this Issue to the EITF agenda. Refer to the discussion of EITF Issue No. 07-5, "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock," elsewhere in these minutes.

b. *Accounting for the Sale of Real Estate to an Entity When the Agreement between the Investors Includes a Buy-Sell Clause.* The Agenda Committee decided to add this Issue to the EITF agenda. Refer to the discussion of EITF Issue No. 07-6, "Accounting for the Sale of Real Estate Subject to the Requirements of FASB Statement No. 66, *Accounting for Sales of Real Estate*, When the Agreement Includes a Buy-Sell Clause," elsewhere in these minutes.

c. *Presentation of Historical Periods When Reporting Transactions between Entities under Common Control.* The Agenda Committee decided not to add this Issue to the EITF agenda.

- The Task Force Chairman introduced Mr. Robert Uhl of Deloitte & Touche LLP, who will replace Mr. James A. Johnson as a member of the Task Force beginning with the November 2007 meeting. The Task Force Chairman thanked Mr. Johnson for his service.

- November 2007 EITF Meeting: An FASB staff member asked Task Force members to anticipate a day-and-a-half EITF meeting to be held on November 28 and 29, 2007.

- An FASB staff member announced that any consensuses-for-exposure reached by the Task Force at this meeting will be considered by the Board for ratification at the Board meeting on September 26, 2007, and then exposed for public comment.

- The Task Force held a closed administrative session.

Issue No. 07-1

Title: Accounting for Collaborative Arrangements

Dates Discussed: March 15, 2007; June 14, 2007; September 11, 2007

References: FASB Statement No. 2, *Accounting for Research and Development Costs*

FASB Statement No. 94, *Consolidation of All Majority-Owned Subsidiaries*

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

FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*

APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*

APB Opinion No. 22, *Disclosure of Accounting Policies*

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

EITF Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent"

EITF Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)"

Introduction

1. Entities may enter into arrangements to participate in a joint operating activity to, for example, jointly develop and commercialize intellectual property, a drug candidate, software, computer hardware, or a motion picture. For example, a joint operating activity involving a drug candidate may include research and development, marketing (including promotional activities and physician detailing), general and administrative activities, manufacturing, and distribution. A collaborative arrangement may provide that one participant has sole or primary responsibility for certain activities or that two or more participants have shared responsibility for certain activities. For example, the arrangement may provide for one participant to have primary responsibility for research and development and another participant to have primary responsibility for commercialization of the final production.

2. The participants may conduct the activities associated with these arrangements without the creation of a separate legal entity (that is, the arrangement is operated as a "virtual joint venture"). In some arrangements, a legal entity may be utilized for specific activities or for a specific geographic location. The arrangements generally provide that the participants share, based on contractually defined calculations, the profits or losses from the associated activities.

3. Questions have arisen in practice as to the appropriate income statement presentation and classification for these activities and payments between the participants, as well as the sufficiency of the disclosures related to these arrangements.

Issues

4. The issues are:

Issue 1— How to determine whether an arrangement constitutes a collaborative arrangement within the scope of this Issue

Issue 2— How costs incurred and revenue generated on sales to third parties should be reported by the participants in a collaborative arrangement in each of their respective income statements

Issue 3— How an entity should characterize payments made between participants in a collaborative arrangement in the income statement

Issue 4— What participants should disclose in the notes to the financial statements about a collaborative arrangement.

Scope

5. This Issue applies to participants in collaborative arrangements that are conducted without the creation of a separate legal entity for the arrangement. The scope of this Issue does not include arrangements for which the accounting is specifically addressed within the scope of other authoritative accounting literature. To the extent that an arrangement is within the scope of other authoritative accounting literature, the arrangement should be accounted for in accordance with the relevant provisions of that literature rather than the guidance in this Issue. The scope of this Issue is not limited to specific industries, such as the biotechnology and pharmaceutical industries or arrangements that involve intellectual property. This Issue does not address recognition matters related to these arrangements, such as, determining the appropriate units of accounting, the appropriate recognition requirements for a given unit of accounting, or when the recognition criteria are met.

6. If an arrangement is conducted through a legal entity in which the participants are shareholders or other interest holders, the activities conducted through the legal entity would be subject to ARB 51, Statement 94, Opinion 18, Interpretation 46(R), or other related accounting literature.[1]

Prior EITF Discussion

7. At the March 15, 2007 EITF meeting, the Task Force discussed Issue 1 including the Working Group's recommendation that a collaborative arrangement subject to the guidance in this Issue be defined as an arrangement in which the parties share in the risks and rewards of the arrangement's operations from the arrangement's inception through its termination. The Task Force also discussed the Working Group's recommendation of indicators that could be used to identify a collaborative arrangement, which are as follows:

a. The participants are active contributors to the arrangement. That is, the participants are not

[1] A collaborative arrangement may include a legal entity in some portion of the arrangement for legal, tax, or regulatory purposes. Any consensus on this Issue does not affect the accounting for that legal entity under ARB 51, Statement 94, Opinion 18, Interpretation 46(R), or other related accounting literature.

solely financial investors, but rather they make significant contributions to directing and carrying out the joint operating activities.

b. The participants are exposed to significant risks and rewards that are dependent on the ultimate commercial success of the endeavor.[2]
c. While all participants need not be present at the inception of the endeavor, the participants financially participate in the arrangement through its eventual termination or commercialization.
d. Through the arrangement the participants have a contractual or other legal right to own, access, use, or otherwise benefit from the underlying intellectual property, for example, by holding the patent or a related license.
e. There is a steering committee or other mechanism to provide the participants with participating rights.

The Working Group recommended that the indicators should not be considered individually presumptive or determinative; however, the relative strength of each indicator should be considered. The Task Force also observed that in addition to the indicators proposed by the Working Group, there may be other indicators that could identify the existence or nonexistence of a collaborative arrangement.

8. The Task Force was not asked to reach a conclusion on Issue 1. The Task Force requested that the FASB staff modify and expand the indicators recommended by the Working Group to clarify the scope of the Issue and the example scenarios used to illustrate this Issue to consider additional fact patterns (see Exhibit 07-1A of Issue Summary No. 1).[3] The Task Force also requested that the staff discuss the revised indicators and illustrative scenarios with the Working Group.

9. The Task Force reached a tentative conclusion on Issue 2 that transactions with third parties (that is, revenue generated and costs incurred by participants from transactions with parties outside of the collaborative arrangement) should be reported gross or net on the appropriate line item in each participant's respective financial statements pursuant to the guidance in Issue 99-19. For example, a participant in a collaborative arrangement that is deemed to be the principal for a given transaction would record that transaction on a gross basis in its financial statements. In reaching that tentative conclusion, the Task Force also concluded that the equity method of accounting under Opinion 18 should not be applied to an arrangement that is conducted by the participants without the creation of a separate legal entity for the arrangement.

10. The Task Force discussed Issue 3 but was not asked to reach a conclusion. The Task Force discussed the alternative views presented to address how sharing payments made to or received by a participant pursuant to a collaborative arrangement should be presented in the statement of operations but requested that the FASB staff explore an additional view for consideration. Under this additional view, all sharing payments would be recorded on a net basis within other operating income or expense in the participant's statement of operations regardless of whether

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[2] For example, the "endeavor" in the biotechnology or pharmaceutical industries may be a drug candidate. In the entertainment industry, it may be a motion picture.

[3] Issue Summary No. 1 was distributed to Task Force members in advance of the March 15, 2007 EITF meeting and was used as the basis for discussions at that meeting.

the related transactions are recorded gross or net under Issue 2. In addition, the Task Force discussed potential disclosures by participants to a collaborative arrangement under this view, including summarized information for the results of the activities of the collaborative arrangement.

11. At the June 14, 2007 EITF meeting, the Task Force discussed Issue 1, including the revised Working Group recommendation. The Task Force reached a tentative conclusion on Issue 1 that a collaborative arrangement is a contractual arrangement in which the parties are active participants to the arrangement and are exposed to significant risks and rewards that are dependent on the ultimate commercial success of the endeavor. An entity should consider all relevant facts and circumstances when evaluating whether an arrangement is a collaborative arrangement. Many collaborative arrangements relate to the development and commercialization of intellectual property; however, there may also be collaborative arrangements that do not relate to intellectual property.

Active Participation

12. The Task Force observed that evidence of active participation in an arrangement may include, but is not limited to, making significant contributions to directing and carrying out the joint operating activities; participating on a steering committee or other oversight or governance mechanism; or holding a contractual or other legal right to the underlying intellectual property. An arrangement solely involving a financial investor is not within the scope of this Issue.

Significant Risks and Rewards

13. The Task Force observed that certain terms of an arrangement may indicate that participants to the arrangement are not exposed to significant risks and rewards including, for example, services performed for fees paid at fair market value rates; the ability of a participant to exit the arrangement without cause and recover a significant portion or all of its cumulative economic participation to date; an allocation of initial profits to only one participant; and a limitation on the reward that accrues to a participant. An arrangement in which the participants are not exposed to variable outcomes dependent on the ultimate commercial success of the endeavor may indicate that the contract is subject to other authoritative accounting literature. Many collaborative arrangements involve licenses of intellectual property, and consideration related to the license may be exchanged at the inception of the arrangement. Such an exchange does not necessarily indicate that the participants are not exposed to significant risks and rewards dependent on the ultimate commercial success of the endeavor. An entity should use judgment in determining whether its participation in an arrangement subjects it to significant risks and rewards.

14. The Task Force also observed that a collaborative arrangement can begin at any point in the life cycle of the endeavor. The stage of the endeavor's life cycle, the terms and conditions of the arrangement, and the expected duration or extent of the participants' financial participation in the arrangement in relation to the endeavor's total expected life or total expected value are all factors to be considered in evaluating whether participants are exposed to significant risks and rewards that are dependent on the ultimate commercial success of the endeavor.

15. Additionally, the Task Force observed that the participants should evaluate whether an arrangement is a collaborative arrangement at the inception of the arrangement based on the facts

and circumstances present at that time. An entity should reconsider whether an arrangement is a collaborative arrangement whenever any changes to the facts and circumstances change either the roles of the participants in the arrangement or the participants' exposure to significant risks and rewards dependent on the ultimate commercial success of the endeavor. The exercise of an option would be an example of a possible reconsideration event.

16. On Issue 3, the Task Force reached a tentative conclusion that the income statement classification of payments between participants pursuant to a collaborative arrangement should be evaluated based on the nature and contractual terms of the arrangement, the nature of each entity's business operations, and whether those payments are within the scope of other authoritative accounting literature regarding income statement classification. If the payments are within the scope of other authoritative accounting literature, an entity should apply the relevant provisions of that literature. To the extent that these payments are not within the scope of other authoritative accounting literature, the income statement classification for the payments should be based on an analogy to authoritative accounting literature or a reasonable, rational, and consistently applied accounting policy election. For example, if one party to an arrangement is required to make a payment to the other party to reimburse a portion of that party's research and development cost, that portion of the net payment may represent a research and development expense pursuant to Statement 2 in the payor's financial statements. The Task Force requested that the staff provide illustrative examples to clarify the tentative conclusion reached on Issue 3.

17. On Issue 4, the Task Force reached a tentative conclusion that a participant in a collaborative arrangement should disclose annually:

a. Information about the nature and purpose of its collaborative arrangements
b. Its rights and obligations under the collaborative arrangements
c. The stage of the underlying endeavor's life cycle
d. The accounting policy for collaborative arrangements in accordance with Opinion 22
e. The income statement classification and amounts attributable to transactions between participants to the collaborative arrangement
f. Amounts due from or owed to other participants under the collaborative arrangements.

Information related to individually significant collaborative arrangements should be disclosed separately.

Current EITF Discussion

18. At the September 11, 2007 EITF meeting, the staff provided illustrative examples to clarify the tentative conclusion reached on Issue 3. The Task Force affirmed its tentative conclusion on Issue 3 as a consensus-for-exposure requiring that the income statement classification of payments between participants pursuant to a collaborative arrangement be evaluated based on the nature of the arrangement, the nature of each entity's business operations, and the contractual terms of the arrangement. Task Force members observed that payments between participants pursuant to a collaborative arrangement that are within the scope of other authoritative accounting literature on income statement classification should apply the relevant provisions of that literature. If the payments are not within the scope of other authoritative accounting literature, the income statement classification for the payments should be based on an analogy to

authoritative accounting literature or a reasonable, rational, and consistently applied accounting policy election.

19. The Task Force also discussed whether to include the illustrative examples for Issue 3 in the draft abstract. The Task Force observed that including the examples within the draft abstract could cause constituents to place undue reliance on the conclusions presented in those examples or draw inappropriate analogies to situations that were not contemplated by the Task Force. However, the Task Force concluded that the illustrative examples would be helpful for constituents and decided to include them as part of the draft abstract. The Task Force members also affirmed the tentative conclusions on Issues 1, 2, and 4 as consensuses-for-exposure.

20. A draft abstract is included as Appendix 07-1A.

Transition

21. The Task Force reached a consensus-for-exposure that this Issue shall be effective for annual periods beginning after December 15, 2007. An entity should report the effects of applying this Issue as a change in accounting principle through retrospective application to all periods. If it is impracticable to apply the effects of a change in accounting principle retrospectively, an entity should disclose both the reasons why reclassification was not made and the effect of the reclassification on the current period pursuant to the guidelines in paragraph 9 of Statement 154. The entity should evaluate whether transition through retrospective application is practicable on an arrangement-by-arrangement basis.

22. Upon initial application of this Issue, the following should be disclosed:

a. A description of the prior-period information that has been retrospectively adjusted, if any
b. The effect of the change on revenue and operating expenses (or other appropriate captions of changes in the applicable net assets or performance indicator) and on any other affected financial statement line item.

Board Ratification

23. At its September 26, 2007 meeting, the Board ratified the consensuses-for-exposure reached by the Task Force in this Issue and approved the issuance of a draft abstract for a public comment period.

Status

24. The draft abstract will be posted to the FASB website after October 1, 2007. Comments on the draft abstract are due by October 22, 2007. Discussion is expected at a future meeting.

Appendix 07-1A

EITF ABSTRACTS **(DRAFT[1])**

Issue No. 07-1

EITF Issue No. 07-1, Accounting for Collaborative Arrangements

Dates Discussed: March 15, 2007; June 14, 2007; September 11, 2007; [November 28–29, 2007]

Objective

1. The objective of this Issue is to define collaborative arrangements and to establish reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties.

All paragraphs in this Issue have equal authority. Paragraphs in bold set out the main principles.

Background

2. Entities may enter into arrangements to participate in a joint operating activity to, for example, jointly develop and commercialize intellectual property, a drug candidate, software, computer hardware, or a motion picture. For example, a joint operating activity involving a drug candidate may include research and development, marketing (including promotional activities and physician detailing), general and administrative activities, manufacturing, and distribution.

3. The participants may conduct the activities associated with these arrangements without the creation of a separate legal entity (that is, the arrangement is operated as a "virtual joint venture"). In some arrangements, a legal entity may be utilized for specific activities or for a specific geographic location. The arrangements generally provide that the participants share, based on contractually defined calculations, the profits or losses from the associated activities.

4. Questions have arisen in practice as to the appropriate income statement presentation and classification for these activities and payments between the participants, as well as the sufficiency of the disclosures related to these arrangements.

Scope

5. This Issue applies to participants in a *collaborative arrangement*. A collaborative arrangement is a contractual arrangement that involves a joint operating activity. These arrangements involve two (or more) parties who are both (a) active participants in the

[1] **This draft abstract is being exposed for a public comment period that will end on October 22, 2007.**

activity and (b) exposed to significant risks and rewards dependent on the commercial success of the activity.

6. A collaborative arrangement within the scope of this Issue is not conducted through a separate legal entity created for that activity. However, in some situations part of a collaborative arrangement may be conducted in a legal entity for specific activities or for a specific geographic location. The scope of this Issue does not include arrangements for which the accounting is specifically addressed within the scope of other authoritative accounting literature. Furthermore, this Issue does not address recognition or measurement matters related to collaborative arrangements, for example, determining the appropriate units of accounting, the appropriate recognition requirements for a given unit of accounting, or when the recognition criteria are met.

7. Participants should evaluate whether an arrangement is a collaborative arrangement at its inception based on the facts and circumstances specific to the arrangement. However, a collaborative arrangement can begin at any point in the life cycle of an endeavor.[2] Participants should reevaluate whether an arrangement continues to be a collaborative arrangement whenever there is a change in either the roles of the participants in the arrangement or the participants' exposure to significant risks and rewards dependent on the ultimate commercial success of the endeavor. For example, the exercise of an option could change a participant's role in the arrangement or its exposure to risks and rewards.

Joint Operating Activity

8. The joint operating activities of a collaborative arrangement might involve joint development and commercialization of intellectual property, a drug candidate, software, computer hardware, or a motion picture. For example, a joint operating activity involving a drug candidate may include research and development, marketing (including promotional activities and physician detailing), general and administrative activities, manufacturing, and distribution. However, there may also be collaborative arrangements that do not relate to intellectual property. For example, the activities of a collaborative arrangement may involve joint operation of a facility, such as a hospital. A collaborative arrangement may provide that one participant has sole or primary responsibility for certain activities or that two or more participants have shared responsibility for certain activities. For example, the arrangement may provide for one participant to have primary responsibility for research and development and another participant to have primary responsibility for commercialization of the final production.

Active Participation

9. Whether the parties in a collaborative arrangement are active participants will depend on the facts and circumstances specific to the arrangement. Examples of situations that may evidence active participation of the parties in a collaborative arrangement include, but are not limited to, the following:

- Directing and carrying out the activities of the joint operating activity
- Participating on a steering committee or other oversight or governance mechanism
- Holding a contractual or other legal right to the underlying intellectual property.

[2] For this Issue, the term *endeavor* refers to the activity that the participants collaborate on; for example, in a biotechnology or pharmaceutical environment the endeavor may be the development and commercialization of a drug candidate. In the entertainment industry, it may be production and distribution of a motion picture.

10. A financial investor is not an active participant in a collaborative arrangement within the scope of this Issue.

Significant Risks and Rewards

11. Whether the participants in a collaborative arrangement are exposed to significant risks and rewards dependent on the commercial success of the joint operating activity depends on the facts and circumstances specific to the arrangement, including, but not limited to, the terms and conditions of the arrangement.

12. The terms and conditions of the arrangement might indicate that participants are not exposed to significant risks and rewards if, for example:

- Services are performed in exchange for fees paid at market rates.
- A participant is able to exit the arrangement without cause and recover all (or a significant portion) of its cumulative economic participation to date.
- Initial profits are allocated to only one participant.
- There is a limit on the reward that accrues to a participant.

13. Other factors that should be considered in evaluating risks and rewards include:

- The stage of the endeavor's life cycle
- The expected duration or extent of the participants' financial participation in the arrangement in relation to the endeavor's total expected life or total expected value.

14. Many collaborative arrangements involve licenses of intellectual property, and the participants may exchange consideration related to the license at the inception of the arrangement. Such an exchange does not necessarily indicate that the participants are not exposed to significant risks and rewards dependent on the ultimate commercial success of the endeavor. An entity should use judgment in determining whether its participation in an arrangement subjects it to significant risks and rewards.

Other Presentation Matters (Income Statement Classification)

15. Participants in a collaborative arrangement shall report costs incurred and revenue generated from transactions with *third parties* (that is, parties that do not participate in the arrangement) in each entity's respective income statement pursuant to the guidance in Issue 99-19. An entity should not apply the equity method of accounting under Opinion 18 to activities of collaborative arrangements.

16. For costs incurred and revenue generated from third parties, the participant in a collaborative arrangement that is deemed to be the principal participant for a given transaction under Issue 99-19 should record that transaction on a gross basis in its financial statements.

17. Payments between participants pursuant to a collaborative arrangement that are within the scope of other authoritative accounting literature on income statement classification should be accounted for using the relevant provisions of that literature. If the payments are not within the scope of other authoritative accounting literature, the income

statement classification for the payments should be based on an analogy to authoritative accounting literature or a reasonable, rational, and consistently applied accounting policy election.

18. An entity shall evaluate the income statement classification of payments between participants pursuant to a collaborative arrangement based on the nature of the arrangement, the nature of its business operations, the contractual terms of the arrangement, and whether those payments are within the scope of other authoritative accounting literature on income statement classification. If the payments are within the scope of other authoritative accounting literature, then the entity shall apply the relevant provisions of that literature. To the extent that these payments are not within the scope of other authoritative accounting literature, the income statement classification for the payments should be based on an analogy to authoritative accounting literature or a reasonable, rational, and consistently applied accounting policy election. For example, if one party to an arrangement is required to make a payment to the other party to reimburse a portion of that party's research and development cost, that portion of the net payment may be classified as research and development expense in the payor's financial statements pursuant to Statement 2.

Disclosure

19. In the initial period and all annual periods thereafter, a participant to a collaborative arrangement should disclose the following:

a. Information about the nature and purpose of its collaborative arrangements

b. Its rights and obligations under the collaborative arrangements

c. The stage of the underlying endeavor's life cycle

d. The accounting policy for collaborative arrangements in accordance with Opinion 22

e. The income statement classification and amounts attributable to transactions between participants to the collaborative arrangement

f. Amounts due from or owed to other participants under the collaborative arrangements.

Information related to individually significant collaborative arrangements should be disclosed separately.

Transition

20. This Issue shall be effective for financial statements issued for fiscal years beginning after December 15, 2007, and interim periods within those fiscal years. This Issue shall be applied retrospectively to all prior periods presented. If it is impracticable to apply the effects of a change in accounting principle retrospectively pursuant to the guidance in paragraph 11 of Statement 154, an entity should disclose both the reasons why reclassification was not made and the effect of the reclassification on the current period pursuant to the guidelines in paragraph 9 of Statement 154. The evaluation of whether transition through retrospective application is practicable should be made on an arrangement by arrangement basis.

21. Upon initial application of this Issue, an entity shall disclose the following:

a. A description of the prior-period information that has been retrospectively adjusted, if any

b. The effect of the change on revenue and operating expenses (or other appropriate captions of changes in the applicable net assets or performance indicator) and on any other affected financial statement line item.

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

References

FASB Statement No. 2, *Accounting for Research and Development Costs*
FASB Statement No. 94, *Consolidation of All Majority-Owned Subsidiaries*
FASB Statement No. 154, *Accounting Changes and Error Corrections*
FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*
APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*
APB Opinion No. 22, *Disclosure of Accounting Policies*
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EITF Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)"

APPENDIX A - ILLUSTRATIVE EXAMPLES

The following examples illustrate potential application of this Issue for payments between participants in a collaborative arrangement based on the limited facts presented. The evaluations following each of the example fact patterns are not intended to represent the only manner in which the guidance in this Issue could be applied. These illustrative examples do not address recognition or measurement matters related to collaborative arrangements. For example, determining the income statement presentation, the appropriate units of accounting, the appropriate recognition requirements for a given unit of accounting, or when the recognition criteria are met is addressed in other authoritative accounting literature. Additional facts would most likely be required in order to fully evaluate the accounting and presentation issues related to these arrangements (in other words, to evaluate the possible impact of other literature).

For the purpose of these illustrations, assume that all of the arrangements are collaborative arrangements within the scope of this Issue.

Illustration 1
Facts: Pharma and Biotech agree to equally participate in the results of research and development activities for a drug candidate and in the commercialization activities if and when the drug candidate is approved for sale, pursuant to a joint development and marketing agreement (a 50 percent/50 percent arrangement). Biotech is responsible for conducting research and development activities relating to the drug candidate, and Pharma is responsible for the commercialization activities if and when the drug candidate is approved for sale. On a quarterly basis, Pharma and Biotech provide the other party financial information about the research and development activities performed by Biotech and the commercialization activities performed by Pharma under the joint development and marketing agreement. One participant is required to make a payment to the other participant for the proportionate share of the excess of the companies' combined operating results pursuant to their joint development and marketing agreement. In the first annual period subsequent to the product launch, Biotech incurred research and development expenses of $10 million and Pharma had sales of $50 million and related manufacturing expenses of $20 million and marketing expenses of $10 million. Pharma owes Biotech $15 million, such that each participant realizes a $5 million net profit from the arrangement (total sales of $50 million, less total expenses (including research and development) of $40 million, divided by 2).

Evaluation: Pharma concludes that it is the principal on the sales transactions with third parties and will present 100 percent of the sales, cost of sales, and marketing expenses in its income statement. As the arrangement addresses several different activities, Pharma has evaluated the income statement classification for amounts due to Biotech associated with each separate activity. Pharma disaggregates its $15 million net payable to Biotech in accordance with the nature of the individual components of the payable and characterizes the profit sharing portion of the payable for 50 percent of the profit related to the sales as cost of sales ($10 million) and characterizes the portion of the payable to Biotech for research and development activities as research and development expense ($5 million). Pharma presents the following information in its financial statements with respect to this collaborative arrangement (in thousands):

Sales to third parties	$50,000
COGS (including $10,000 payable to Biotech for profit sharing)	30,000
SG&A	10,000
R&D (including $5,000 payable as a reimbursement of Biotech's expenses incurred)	5,000
Net profit	$ 5,000

Biotech records research and development expense ($10 million) for its research and development activities. Biotech concludes that Pharma is its customer with respect to the research and development services. Additionally, licensing intellectual property and contract research and development services are part of Biotech's ongoing major or central operations. Accordingly, Biotech will characterize the portion of its net receivable from Pharma related to research and development services and the portion of the net receivable for profit sharing as revenue ($5 million and $10 million, respectively) when recognized. Biotech will not present sales, cost of sales, or marketing expenses related to the sales transactions with third parties because it is not the principal on those transactions.

Biotech presents the following information in its financial statements with respect to this collaborative arrangement (in thousands):

Revenues from collaborative arrangement	$ 15,000
COGS	-0-
SG&A	-0-
R&D	10,000
Net profit	$ 5,000

This evaluation is not intended to illustrate the appropriate revenue recognition requirements for any of the transactions described above. Such an analysis would include, at a minimum, a determination of the applicable authoritative accounting literature, the identification of the deliverables in the arrangement, and a determination of the units of accounting in the arrangement and the appropriate revenue recognition requirements for those units of accounting.

Illustration 2

Facts: Pharma and Biotech agree to equally participate in the results of research and development activities for a drug candidate and in the commercialization activities if the drug candidate is approved for sale, pursuant to a joint development and marketing agreement (a 50 percent/50 percent arrangement). Assume that Pharma and Biotech both agree to provide resources during the research and development phase, and Pharma is responsible for the commercialization activities if the drug candidate is approved for sale. As both participants are performing research and development activities, there may be periods in which Biotech must make a payment to Pharma for its proportionate share of the research and development activities and periods in which Pharma must make payments to Biotech. On a quarterly basis, Pharma and Biotech provide financial information about the research and development activities performed by both parties and the commercialization activities performed by Pharma under the joint development and marketing agreement. One participant is required to make a payment to the other participant for a proportionate share of the excess of the parties' combined operating results pursuant to their joint development and marketing agreement. In the first annual period subsequent to the product launch, Biotech and Pharma incurred research and development expenses of $10 million and $15 million, respectively. Pharma had sales of $75 million, related manufacturing expenses of $22.5 million, and marketing expenses of $20 million. As a result, Pharma owes Biotech $13.75 million, such that each participant realizes $3.75 million net profit from the arrangement (total sales of $75 million, less total expenses of $67.5 million, divided by 2).

Evaluation: Pharma concludes that it is the principal on the sales transactions with third parties and will present 100 percent of the sales, cost of sales, and marketing expenses in its income statement. As the arrangement addresses several different activities, Pharma has evaluated the income statement classification for payments associated with each separate activity. Pharma disaggregates the $13.75 million net payable to Biotech in accordance with the nature of the individual components of the payable and characterizes the portion of the payable related to 50 percent of the commercialization activities (sales to third parties less associated manufacturing and marketing costs), as cost of sales ($16.25 million) and characterizes the portion of the net payable related to research and development activities as a reduction of its research and development expenses ($2.5 million), because performing contract research and development services is not part of its ongoing major or central operations. In addition, Pharma concludes that Biotech is not its customer with respect to the research and development activities in this arrangement. Pharma presents the following information in its financial statements with respect to this collaborative arrangement (in thousands):

Sales to third parties	$75,000
COGS (including $16,250 payable to Biotech for profit sharing)	38,750
SG&A	20,000
R&D (net of $2,500 due from Biotech as a reimbursement of expenses incurred)	12,500
Net profit	$ 3,750

Biotech records research and development expense ($10 million) for its research and development activities. Biotech will characterize the portion of the net receivable from Pharma related to commercialization activities ($16.25 million) as revenue, based on the fact that licensing intellectual property is part of Biotech's ongoing major or central operations. Biotech characterizes the portion of the net receivable that relates to a reimbursement of Pharma's research and development costs ($2.5 million) as additional research and development expense. Biotech bases that conclusion on the fact that the primary purpose of this collaborative arrangement is for the participants to work together to develop and commercialize a product for sale to third parties, and not to generate greater sales between the participants in the collaborative arrangement. (If the facts and circumstances in this example were different and Biotech viewed the arrangement with Pharma as a vendor-customer relationship, the analysis would be that the reimbursement of Pharma's research and development costs would be subject to the guidance in Issue 01-9. As a result, Biotech would presume that the payment should be characterized as a reduction of revenue, unless Biotech receives a separable, identifiable benefit in exchange, and can reasonably estimate the fair value of the benefit, in which case, expense classification would be permitted. This Issue does not address whether the payable is within the scope of Issue 01-9.) Biotech will not present sales, cost of sales, or marketing expenses related to the sales transactions with third parties because it is not the principal on those transactions. Biotech presents the following information in its financial statements with respect to this collaborative arrangement (in thousands):

Revenues from collaborative arrangement	$16,250
COGS	-0-
SG&A	-0-
R&D (including $2,500 payable as a reimbursement of Pharma's expenses incurred)	12,500
Net profit	$3,750

This evaluation is not intended to illustrate the appropriate revenue recognition requirements for any of the transactions described above. Such an analysis would include, at a minimum, a determination of the applicable authoritative accounting literature, identification of the deliverables in the arrangement, determination of the units of accounting in the arrangement and the appropriate revenue recognition requirements for those units of accounting.

Illustration 3

Facts: Big Pharma and Little Pharma agree to jointly participate in the results of the research and development activities for a drug candidate and in the commercialization activities if and when the drug candidate is approved for sale, pursuant to a joint development and marketing agreement. Big Pharma and Little Pharma both agree to provide resources during the research and development and the commercialization activities. Little Pharma will be responsible for commercialization activities in the United States, and Big Pharma will be responsible for commercialization activities in Europe and Asia. Under the arrangement, they will share research and development costs incurred on a 50 percent/50 percent basis. Little Pharma will retain 65 percent of the net profits from commercialization activities in the United States, and Big Pharma will retain 70 percent of the net profits from commercialization activities in Europe and Asia. On a quarterly basis, Big Pharma and Little Pharma provide financial information about the research and development and the commercialization activities performed by both parties under the joint development and marketing agreement, and one participant is required to make a payment to the other participant for a proportionate share of the excess of the parties' combined operating results pursuant to their joint development and marketing agreement. The results of the first annual period of the collaborative arrangement prior to any payments between the parties were as follows (in thousands):

	Little Pharma	Big Pharma	Combined
Sales to third parties	$120,000	$90,000	$210,000
COGS	30,000	35,000	65,000
S,G &A	25,000	20,000	45,000
R&D	35,000	20,000	55,000
Net profit	$ 30,000	$15,000	$ 45,000

Evaluation: Big Pharma concludes that it is the principal on the sales transactions with third parties in Europe and Asia and will present 100 percent of the sales, cost of sales, and marketing expenses related to those efforts in its income statement. As the arrangement addresses several different activities, Big Pharma has evaluated the income statement classification for the payments associated with each separate activity. Big Pharma disaggregates its $4.75 million net receivable from Little Pharma in accordance with the nature of the individual components of the payable and characterizes the portion of the net receivable related to 30 percent of the profit related to the sales in Europe and Asia as cost of sales ($10.5 million) and characterizes the portion of the net receivable related to a reimbursement of Little Pharma's research and development costs as research and development expenses ($7.5 million). Big Pharma concludes that it will characterize the portion of the net receivable related to Little Pharma's sales in the United States as revenue ($22.75 million) similar to a royalty and would characterize any payment from Little Pharma for research and development activities as a reduction of its research and development costs. Big Pharma's conclusion is based on the fact that performing contract research and development services is not part of its ongoing major or central operations. In addition, Big Pharma concludes that Little Pharma is not its customer with respect to the research and development activities in this arrangement. Big Pharma presents the following information in its financial statements with respect to this collaborative arrangement (in thousands):

Sales to third parties	$90,000
Revenue from collaborative arrangement	22,750
COGS (including $10,500 payable to Little Pharma for profit sharing)	45,500
SG&A	20,000
R&D (including $7,500 payable as a reimbursement of Little Pharma's expenses incurred)	27,500
Net profit	$19,750

Little Pharma concludes that it is the principal on the sales transactions with third parties in the United States and will present 100 percent of the sales, cost of sales, and marketing expenses related to those efforts in its income statement. As the arrangement includes several different activities, Little Pharma has evaluated the income statement classification for payments associated with each separate activity. Little Pharma disaggregates its $4.75 million net payable to Big Pharma in accordance with the nature of the individual item and characterizes portion of the net payable related to 35 percent of the profit related to the sales in the United States as cost of sales ($22.75 million) and characterizes the portion of the net payable to Big Pharma for research and development activities as research and development expenses. Little Pharma concludes that it will characterize the portion of the net payable related to profit sharing from Big Pharma's sales in Europe and Asia as revenue similar to a royalty ($10.5 million) and will characterize any payment from Big Pharma for research and development activities as a reduction of its research and development costs ($7.5 million). Little Pharma's conclusion is based on the fact that performing contract research and development services is not part of its ongoing major or central operations. In addition, Little Pharma concludes that Big Pharma is not its customer with respect to the research and development activities in this arrangement. Little Pharma presents the following information in its financial statements with respect to this collaborative arrangement (in thousands):

Sales to third parties	$120,000
Revenue from collaborative arrangement	10,500
COGS (including $22,750 payable to Big Pharma for profit sharing)	52,750
SG&A	25,000
R&D (including $7,500 due from Big Pharma as a reimbursement)	27,500
Net profit	$25,250

This evaluation is not intended to illustrate the appropriate revenue recognition requirements for any of the transactions described above. Such an analysis would include, at a minimum, a determination of the applicable authoritative accounting literature, identification of the deliverables in the arrangement, determination of the units of accounting in the arrangement and the appropriate revenue recognition requirements for those units of accounting.

Illustration 4

Facts: Studio A and Studio B agree to jointly participate in the production and distribution of a major motion picture. Studio A will manage the day-to-day production activities and will be responsible for distribution in the U. S., while Studio B will be responsible for distribution in Europe and Asia. Even though Studio A will be managing the production, under the arrangement, both studios agree that they will share equally in all production costs incurred. For purposes of this example, no license to intellectual property has been conveyed to Studio B. Further, Studio A will pay Studio B 50 percent of the net profits (that is, revenues less distribution costs) from the United States distribution to Studio B, and Studio B will pay Studio A 50 percent of the net profits from European and Asian distribution to Studio A. The studios are responsible for initially funding all distribution costs in their respective locations. On a quarterly basis, Studio A and Studio B provide financial information about the production and distribution under the joint production and distribution agreement, and one participant is required to make a payment to the other participant for a proportionate share of the excess of the parties' combined operating results pursuant to the joint production and distribution agreement.

At the completion of the production process, the total production costs of the film amounted to $50 million for which Studio B paid Studio A $25 million. In Year 1 of the film's release, the net profits were $75 million in the United States and $30 million in Europe and Asia. Accordingly, Studio A pays Studio B $22.5 million (50 percent of the total net profits of $105 million less Studio B's net profits of $30 million). In Year 2 of the film's release, the net profits were $25 million in the United States and $60 million in Europe and Asia. Accordingly, Studio B pays Studio A $17.5 million (50 percent of the total net profits of $85 million less Studio A's net profits of $25 million).

Evaluation: During (or at the completion of) production, Studio A records the cash received from Studio B as a reduction of its capitalized film costs. Thus, at the end of production, Studio A has only $25 million in capitalized film costs reflected on its balance sheet for the project. Studio A has determined that, considering the guidance in Issue 99-19, it is the principal for the revenue generated in the United States. Accordingly, it characterizes all of the gross revenue related to the $75 million in Year 1 as revenue in its income statement and likewise records all of the associated distribution costs for distribution in the United States. Studio A concludes that it is not within the scope of other authoritative accounting literature for payments to and from Studio B. Studio A's accounting policy with respect to profit sharing amounts due from and to its production partners is to record those amounts net, in cost of sales, as it views these amounts either as additional costs for production and distribution or a reimbursement of such costs. Accordingly, Studio A records its payment of $22.5 million to Studio B as additional cost of sales. In Year 2, Studio A also characterizes the gross revenue related to the $25 million of net profits as revenue in its income statement. Consistent with its accounting policy, Studio A records the receipt of $17.5 million as a reduction of costs of sales in Year 2.

During production, Studio B records payments to Studio A as capitalized film costs. Thus, at the end of production, it has $25 million in capitalized film costs reflected on its balance sheet for the project. Studio B has determined that, after considering the guidance in Issue 99-19, it is the principal for the revenue generated in Europe and Asia. Accordingly, it characterizes all of the gross revenue related to the $30 million in Year 1 net profits as revenue in its income statement and likewise records all of the associated distribution costs for distribution in Europe and Asia. Studio B concludes that it is not within the scope of other authoritative accounting literature for payments to and from Studio A. Studio B's accounting policy with respect to profit sharing amounts due from and to its production partners is to record net amounts due from production partners as additional revenue and net amounts due to production partners as a cost of sales. Accordingly, Studio B records the receipt of $22.5 million from Studio A as revenue. Studio B also characterizes the gross revenue related to the $60 million in Year 2 net profits as revenue in its income statement. Consistent with its accounting policy, Studio B records the payment of $17.5 million as additional cost of sales in Year 2.

This evaluation is not intended to illustrate the appropriate revenue recognition requirements for any of the transactions described above. Such an analysis would include, at a minimum, a determination of the applicable authoritative accounting literature, the identification of the deliverables in the arrangement, and a determination of the units of accounting in the arrangement and the appropriate revenue recognition requirements for those units of accounting.

Issue No. 07-4

Title: Application of the Two-Class Method under FASB Statement No. 128, *Earnings per Share*, to Master Limited Partnerships

Dates Discussed: June 14, 2007; September 11, 2007

References: FASB Statement No. 128, *Earnings per Share*

Proposed FSP EITF 03-6-a, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities"

AICPA Statement of Position 95-2, "Financial Reporting by Nonpublic Investment Partnerships"

International Accounting Standard 33, *Earnings per Share*

EITF Issue No. 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128"

EITF Issue No. 04-8, "The Effect of Contingently Convertible Instruments on Diluted Earnings per Share"

EITF Abstracts, Topic No. D-72, "Effect of Contracts That May Be Settled in Stock or Cash on the Computation of Diluted Earnings per Share"

EITF Abstracts, Topic No. D-82, "Effect of Preferred Stock Dividends Payable in Common Shares on Computation of Income Available to Common Stockholders"

Introduction

1. Publicly traded master limited partnerships (MLPs) often issue multiple classes of securities that may participate in partnership distributions according to a formula specified in the partnership agreement. A typical MLP consists of publicly-traded common units held by limited partners (LPs), a general partner (GP) interest, and incentive distribution rights (IDRs). Depending on the structure of the MLP, the IDRs may be a separate class of non-voting limited partner interest that the GP initially holds but generally may transfer or sell apart from its overall interest. Alternatively, the IDRs may be embedded in the GP interest such that they cannot be detached and transferred apart from the GP's overall interest.

2. Generally, the partnership agreement obligates the GP to distribute 100 percent of the partnership's available cash[1] at the end of each quarter to the GP and LPs via a distribution waterfall (that is, a schedule that prescribes distributions to the GP and LPs at each threshold). When certain thresholds are met, the distribution waterfall further allocates available cash to the

[1] Available cash is typically defined in the partnership agreement as all cash on hand at the end of each quarter less cash retained by the partnership as capital to (a) operate the business (for example, future capital expenditures), (b) comply with applicable law, debt, and other agreements, and (c) provide funds for distribution to the common units, GP, and IDR holders for any one or more of the next four quarters.

holder of the separate class of non-voting limited partner interest (the IDR holder) or, when the IDR is embedded in the GP interest, to the GP. The net income (or loss) of the partnership is allocated to the capital accounts of the GP and LPs based on their respective sharing of income or losses specified in the partnership agreement, but only after taking into account any priority income allocations resulting from incentive distributions.

3. As a result of the capital structure of MLPs, the partnership is required to apply the two-class method of computing earnings per unit (EPU). Paragraph 61 of Statement 128 describes the two-class method as an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. Undistributed earnings are allocated to the common unit(s) and participating securities as if all earnings for the period had been distributed. When applying the two-class method to the interests of the GP and LPs in an MLP, questions have been raised about the impact of IDRs on the computation of EPU.

Issue

4. The issue is, when applying the two-class method under Statement 128, how current period earnings of an MLP should be allocated to the GP, LPs, and, when applicable, IDRs.

Scope

5. This Issue applies to MLPs that are required to make incentive distributions when certain thresholds have been met regardless of whether the IDR is a separate LP interest or embedded in the GP interest. This Issue only addresses incentive distributions that are treated as equity distributions and does not address whether the incentive distributions are compensation or equity distributions.

Prior EITF Discussion

6. At the June 14, 2007 EITF meeting, the Task Force discussed this Issue but was not asked to reach a conclusion. The Task Force requested that the staff provide additional examples illustrating the application of the various alternatives for discussion at a future EITF meeting. In addition, the Task Force requested that the staff obtain additional information about IDRs and the nature of the GP's involvement with the MLP.

Current EITF Discussion

7. At the September 11, 2007 EITF meeting, the Task Force discussed how current-period earnings of an MLP should be allocated to the GP and LPs when the arrangement includes IDRs. The Task Force observed that the determination of whether the incentive distribution is an equity distribution or compensation expense is outside the scope of this Issue. Accordingly, the Task Force reached a consensus-for-exposure that this Issue applies only to MLPs that have concluded that the incentive distribution is an equity distribution.

8. The Task Force also reached a consensus-for-exposure that this Issue applies to all MLP arrangements regardless of whether the IDRs are a separate interest or embedded in the GP interest. That is, when the IDRs are a separate interest, the IDRs represent a participating security and therefore the MLP would allocate current-period earnings to the LP, GP, and IDR holder using the two-class method. In contrast, when the IDR is embedded in the GP interest,

the IDR would not be considered a participating security; however, the MLP would still apply the two-class method to the interests of the GP and LPs. In those circumstances, the GP's earnings allocation would include the rights of the IDR. The Task Force recommended that the Notice for Recipients in the draft abstract specifically request input from constituents on whether they agree that the scope of this Issue includes IDRs that are embedded in the GP interest.

9. The Task Force reached a consensus-for-exposure that when current-period earnings are in excess of cash distributions and the IDRs are a separate LP interest, undistributed earnings should be allocated to the GP, LPs, and IDR holder as if the undistributed earnings were available cash. That is, undistributed earnings would be allocated to the GP, LPs, and IDR holder utilizing the distribution formula for available cash specified in the partnership agreement. Similarly, when the IDR is embedded in the GP interest, undistributed earnings should be allocated to the GP (including the distribution rights of the embedded IDR) and LPs as if the undistributed earnings were available cash. In reaching its consensus-for-exposure, the Task Force observed that the distribution formula based on available cash would not be considered a "specified threshold" as described in Example F in paragraph 16 of Issue 03-6.

10. The Task Force also reached a consensus-for-exposure that when cash distributions are in excess of current-period earnings and the IDRs are a separate LP interest, net income (or loss) should be reduced (or increased) by distributions to the GP, LPs, and IDR holder. The resulting excess of distributions over earnings would be allocated to the GP and LPs based on their respective sharing of losses (that is, the provisions for allocation of losses to the partners' capital accounts) specified in the partnership agreement. This consensus-for-exposure assumes that the IDR holder does not have a contractual obligation to share in the losses of the MLP (as described in paragraphs 17 and 18 of Issue 03-6). If the IDR holder has a contractual obligation to share in the losses of the MLP on an objectively determined basis, the excess of distributions over earnings would be allocated to the GP, LPs, and IDR holder based on their respective sharing of losses specified in the partnership agreement. Similarly, when the IDR is embedded in the GP interest, net income (or loss) should be reduced (or increased) by distributions to the GP (including the distribution rights of the embedded IDR) and LPs. The resulting excess of distributions over earnings would be allocated to the GP and LPs based on their respective sharing of losses specified in the partnership agreement.

11. A draft abstract is included in Appendix 07-4A.

Transition

12. The Task Force reached a consensus-for-exposure that this Issue should be effective for financial statements issued for fiscal years beginning after December 15, 2007, and interim periods within those fiscal years. The Task Force recommended that the Notice for Recipients in the draft abstract request input from constituents on whether the effective date provides sufficient time for entities to understand and apply the requirements of this Issue. Earlier application is not permitted. The guidance in this Issue should be applied retrospectively for all financial statements presented.

Board Ratification

13. At its September 26, 2007 meeting, the Board ratified the consensuses-for-exposure reached

by the Task Force in this Issue and approved the issuance of a draft abstract for a public comment period.

Status

14. The draft abstract will be posted to the FASB website after October 1, 2007. Comments on the draft abstract are due by October 22, 2007.

Appendix 07-4A

EITF ABSTRACTS **(DRAFT[1])**

Issue No. 07-4

EITF Issue No. 07-4, Application of the Two-Class Method under FASB Statement No. 128 to Master Limited Partnerships

Dates Discussed: June 14, 2007; September 11, 2007; [November 28–29, 2007]

Objective

1. The objective of this Issue is to improve the comparability of earnings per unit (EPU) calculations for master limited partnerships (MLPs) with incentive distribution rights (IDRs) in accordance with Statement 128 and its related interpretations.

All paragraphs in this Issue have equal authority.
Paragraphs in bold set out the main principles.

Background

2. Publicly traded MLPs often issue multiple classes of securities that may participate in partnership distributions according to a formula specified in the partnership agreement. A typical MLP consists of publicly traded common units held by limited partners (LPs), a general partner (GP) interest, and IDRs. Depending on the structure of the MLP, the IDRs may be a separate class of nonvoting limited partner interest that the GP initially holds but generally may transfer or sell apart from its overall interest. Alternatively, the IDRs may be embedded in the GP interest such that they cannot be detached and transferred apart from the GP's overall interest.

3. Generally, the partnership agreement obligates the GP to distribute 100 percent of the partnership's available cash at the end of each quarter to the GP and LPs via a distribution waterfall (that is, a schedule that prescribes distributions to the GP and LPs at each threshold). When certain thresholds are met, the distribution waterfall further allocates available cash to the holder of the separate class of nonvoting limited partner interest (the IDR holder) or, when the IDR is embedded in the GP interest, to the GP. The net income (or loss) of the partnership is allocated to the capital accounts of the GP and LPs based on their respective sharing of income or losses specified in the partnership agreement, but only after taking into account any priority income allocations resulting from incentive distributions.

4. As a result of the capital structure of MLPs, the partnership is required to apply the two-class method to calculate EPU. Paragraph 61 of Statement 128 describes the two-class method as an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and

[1] **This draft abstract is being exposed for a public comment period that will end on October 22, 2007.**

participation rights in undistributed earnings. Undistributed earnings are allocated to the common unit(s) and participating securities as if all earnings for the period had been distributed. When applying the two-class method to the interests of the GP and LPs in MLPs, questions have been raised about the effect of IDRs on the computation of EPU.

Scope

5. This Issue applies to MLPs that are required to make incentive distributions when certain thresholds have been met that are accounted for as equity distributions.

6. An MLP may issue IDRs that are a separate class of nonvoting LP interest that the GP initially holds or IDRs that are embedded in the GP interest and therefore cannot be detached or transferred apart from the GP's overall interest. IDRs that are a separate class of non-voting limited partner interest generally may be transferred or sold apart from the GP interest. This Issue applies to all MLPs (a) that are required to make incentive distributions when certain thresholds have been met (regardless of whether the IDRs are a separate LP interest or embedded in the GP interest) and (b) have accounted for the incentive distributions as equity distributions (as opposed to compensation costs). The determination of whether the incentive distribution is an equity distribution or compensation expense is outside the scope of this Issue.

Other Presentation Matters

7. IDRs that are a separate class of LP interest are participating securities because they have a right to participate in earnings with common equity holders. Therefore, current-period earnings shall be allocated to the GP, LP, and IDR holders using the two-class method in Statement 128 to calculate EPU.

8. When calculating EPU under the two-class method for an MLP, net income (or loss) shall be reduced (or increased) by distributions to the GP, LPs, and IDR holders. The undistributed earnings, if any, shall be allocated to the GP, LPs, and IDR holder utilizing the distribution waterfall (that is, a schedule that prescribes distributions to the various interest holders at each threshold) for available cash specified in the partnership agreement. The distribution formula for available cash would not be considered a "specified threshold" as described in Example F in paragraph 16 of Issue 03-6. Any excess of distributions over earnings shall be allocated to the GP and LPs based on their respective sharing of losses specified in the partnership agreement (that is, the provisions for allocation of losses to the partners' capital accounts). If the IDR holders do not share in losses, the excess of distribution over earnings amount would not be allocated to the IDR holders. However, if the IDR holders have a contractual obligation to share in the losses of the MLP on a basis that is objectively determinable (as described in paragraphs 17 and 18 of Issue 03-6), the excess of distributions over earnings shall be allocated to the GP, LPs, and IDR holders based on their respective sharing of losses specified in the partnership agreement.

9. IDRs that are embedded in the GP interest are not separate participating securities. However, because the GP and LP interests are separate classes of equity, the two-class method shall be applied in computing EPU for the GP and LP interests.

10. When calculating EPU under the two-class method for an MLP, net income (or loss) shall be reduced (or increased) by distributions to the GP (including the distribution rights of the embedded IDRs) and LPs. Undistributed earnings, if any, shall be allocated to the GP (including the distribution rights of the embedded IDRs) and LPs utilizing the distribution waterfall for

available cash specified in the partnership agreement. The excess of distributions over earnings shall be allocated to the GP and LPs based on their respective sharing of losses specified in the partnership agreement.

Transition

11. This Issue shall be effective for financial statements issued for fiscal years beginning after December 15, 2007, and interim periods within those fiscal years. Earlier application is not permitted. This Issue shall be applied retrospectively for all financial statements presented.

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

References

FASB Statement No. 128, *Earnings per Share*

Proposed FSP EITF 03-6-a, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities"

AICPA Statement of Position 95-2, "Financial Reporting by Nonpublic Investment Partnerships"

International Accounting Standard 33, *Earnings per Share*

EITF Issue No. 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128"

EITF Issue No. 04-8, "The Effect of Contingently Convertible Instruments on Diluted Earnings per Share"

EITF Abstracts, Topic No. D-72, "Effect of Contracts That May Be Settled in Stock or Cash on the Computation of Diluted Earnings per Share"

EITF Abstracts, Topic No. D-82, "Effect of Preferred Stock Dividends Payable in Common Shares on Computation of Income Available to Common Stockholders"

Issue No. 07-5

Title: Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock

Date Discussed: September 11, 2007

References: FASB Statement No. 123 (revised 2004), *Share-Based Payment*

FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*

EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock"

EITF Issue No. 01-6, "The Meaning of 'Indexed to a Company's Own Stock'"

EITF Issue No. 05-2, "The Meaning of 'Conventional Convertible Debt Instrument' in Issue No. 00-19"

Statement 133 Implementation Issue No. C8, "Scope Exceptions: Derivatives That Are Indexed to both an Entity's Own Stock and Currency Exchange Rates"

Introduction

1. Paragraph 11(a) of Statement 133 specifies that a contract that would otherwise meet the definition of a derivative under that Statement issued or held by the reporting entity that is **both** (a) indexed to its own stock and (b) classified in stockholders' equity in its statement of financial position shall not be considered a derivative financial instrument for purposes of applying that Statement. If a freestanding financial instrument (for example, a stock purchase warrant) meets the scope exception in paragraph 11(a) of Statement 133, it is classified as an equity instrument and is not accounted for as a derivative instrument.

2. Paragraph 12 of Statement 133 requires that an embedded derivative instrument be separated from the host contract and accounted for as a derivative instrument pursuant to that Statement if certain criteria are met. One of those criteria, set forth in paragraph 12(c), is that a separate instrument with the same terms as the embedded derivative instrument would, pursuant to paragraphs 6–11 of that Statement, be a derivative instrument subject to the requirements of Statement 133. Consequently, if an embedded feature (for example, the conversion option embedded in a convertible debt instrument) meets the scope exception in paragraph 11(a) of Statement 133, it would not be separated from the host contract and accounted for as a derivative by the issuer.

3. This Issue addresses the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock, which is the first part of the scope exception in paragraph 11(a) of Statement 133. If an instrument (or an embedded feature) that has the characteristics of a derivative instrument under paragraphs 6–9 of Statement 133 is indexed to an entity's own stock, it is still necessary to evaluate whether it is classified in stockholders' equity (or would be classified in stockholders' equity if it were a freestanding instrument). For example, a net-cash-

settled stock purchase warrant may be indexed to an entity's own stock, but it is not classified in stockholders' equity. Other applicable authoritative accounting literature, including Issues 00-19 and 05-2, provides guidance for determining whether an instrument (or an embedded feature) is classified in stockholders' equity (or would be classified in stockholders' equity if it were a freestanding instrument). This Issue does not address that second part of the scope exception in paragraph 11(a) of Statement 133.

4. In addition, some instruments that are potentially subject to the guidance in Issue 00-19 do not have all the characteristics of a derivative instrument under paragraphs 6–9 of Statement 133. For example, a physically settled forward contract to issue an entity's own equity shares in exchange for cash would not meet the net-settlement characteristic of a derivative instrument, as described in paragraphs 6(c) and 9 of Statement 133, if the underlying equity shares are not readily convertible to cash. If the forward contract is considered to be indexed to the entity's own stock, it would be evaluated under Issue 00-19 to determine whether it should be classified in equity or as an asset or a liability. However, if the terms of that forward contract are such that it is not considered to be indexed to the entity's own stock, equity classification would be precluded and the instrument would not be within the scope of Issue 00-19 (that Issue provides accounting guidance for instruments that are **indexed to**, and potentially settled in, the issuer's own stock). Consequently, for certain freestanding instruments that do not have all the characteristics of a derivative instrument under paragraphs 6–9 of Statement 133 but are potentially settled in an entity's own equity shares, this Issue would apply for evaluating whether they are within the scope of Issue 00-19.

5. Issue 01-6 provides guidance on evaluating whether certain instruments and embedded features are indexed to an entity's own stock. Specifically, Issue 01-6 applies to instruments and embedded features for which exercisability is based on one or more defined contingencies provided that once a contingency has occurred, the instrument's settlement amount is based solely on the issuing company's own stock. The consensus in Issue 01-6 specifies that instruments within the scope of that Issue are considered indexed to a company's own stock provided that (1) the contingency provisions are not based on (a) an observable market, other than the market for the issuer's stock (if applicable), or (b) an observable index, other than those measured solely by reference to the issuer's own operations, and (2) once the contingent events have occurred, the instrument's settlement amount is based solely on the issuer's own stock.

6. Issue 1 below is a reconsideration of the existing consensus in Issue 01-6. Issues 2 and 3 below apply to instruments and embedded features for which the settlement amount must or may be affected by variables other than the entity's stock price.

Issues

7. The issues are how an entity should determine whether the following types of instruments or embedded features are indexed to its own stock.

Issue 1— Instruments and embedded features for which exercisability is based on one or more defined contingencies provided that once a contingency has occurred, the instrument's settlement amount is based solely on the difference between the fair value of a fixed number of the entity's equity shares and a fixed strike price.

Issue 2— Instruments and embedded features for which (a) the settlement amount is always based on the entity's stock price and one or more other variables or (b) the party receiving shares at settlement has a noncontingent option to deliver noncash consideration whose fair value is affected by one or more variables other than the entity's stock price.

Issue 3— Instruments and embedded features for which the settlement amount is based solely on the difference between the fair value of a fixed number of the entity's equity shares and a fixed strike price unless a defined contingency occurs or specified condition is met (including a condition relating to the issuer's share price at settlement). Upon occurrence of the contingent event or other condition, there is an adjustment to the number of shares used to calculate the settlement amount, the strike price, or both.

Scope

8. This Issue applies to any freestanding financial instrument or embedded feature that has all the characteristics of a derivative in paragraphs 6–9 of Statement 133, for purposes of determining whether that instrument or embedded feature qualifies for the first part of the scope exception in paragraph 11(a) of Statement 133. This Issue also applies to any freestanding financial instrument that is potentially settled in an entity's own stock, regardless of whether the instrument has all the characteristics of a derivative in paragraphs 6–9 of Statement 133, for purposes of determining whether the instrument is within the scope of Issue 00-19.

9. This Issue does not apply to share-based payment awards within the scope of Statement 123(R) for purposes of determining whether instruments are classified as liability awards or equity awards under that Statement.

Current EITF Discussion

10. At the September 11, 2007 EITF meeting, the Task Force reached a tentative conclusion on Issue 1 that contingent exercise provisions do not preclude an instrument or embedded feature from being indexed to an entity's own stock, provided that those provisions are not based on (a) an observable market, other than the market for the entity's stock (if applicable), or (b) an observable index, other than those calculated solely by reference to the entity's own operations (for example, sales revenue of the entity, EBITDA [earnings before interest, taxes, depreciation, and amortization] of the entity, net income of the entity, or total equity of the entity). This tentative conclusion reaffirms the existing consensus in Issue 01-6.

11. The Task Force discussed Issue 2 but was not asked to reach a tentative conclusion.

12. The Task Force reached a tentative conclusion on Issue 3 that an entity must presume the occurrence of a contingent event or other condition that would adjust the settlement terms of that instrument or embedded feature when evaluating whether an instrument or embedded feature is indexed to its own stock.

13. The Task Force requested that the FASB staff form a working group to assist in developing a framework for evaluating whether the instruments and embedded features addressed in Issues 2

and 3 are indexed to an entity's own stock. The Task Force recommended that the working group focus on developing a framework under which an instrument or embedded feature would be considered indexed to an entity's own stock if its ultimate settlement amount will equal the difference between the fair value of a fixed number of the entity's equity shares and a fixed strike price. An instrument or embedded feature for which the number of shares used to calculate the settlement amount, the strike price, or both, may vary would not be indexed to an entity's own stock unless the only variables that could affect the settlement amount would be inputs to a fair value measurement of any option or forward contract on equity shares (for example, interest rates). However, under that approach, standard antidilution provisions would not preclude an instrument or embedded feature from being indexed to an entity's own stock.

14. Task Force members observed that the tentative conclusions reached on Issues 1 and 3 may be reconsidered after the working group provides the Task Force with its recommendations on Issue 2.

Status

15. Further discussion is expected at a future meeting.

Issue No. 07-6

Title: Accounting for the Sale of Real Estate Subject to the Requirements of FASB Statement No. 66, *Accounting for Sales of Real Estate*, When the Agreement Includes a Buy-Sell Clause

Date Discussed: September 11, 2007

Reference: FASB Statement No. 66, *Accounting for Sales of Real Estate*

Introduction

1. When investors enter into an arrangement to create a jointly owned entity and one investor sells real estate to that entity, a buy-sell clause is often included in the agreement between the investors. The buy-sell clause is a contractual term that gives both of the investors of the jointly owned entity the ability to offer to buy the other investor's interest. In some cases the buy-sell clause may be executed at any time or in other cases only at some specified future date. When an offer is made pursuant to the buy-sell clause, the recipient of the offer can elect to sell its interest for the offered amount or buy the offeror's interest at the offered amount. Generally, once an offer is made, the offeror is contractually required to buy the other investor's interest or sell its interest at the offered amount depending on the other investor's election. A buy-sell clause can specify that the offer be at fair value, at a contractually specified amount, or at an amount determined by the offeror, which is the most common type.

2. Statement 66 includes guidance on the accounting for sales of real estate and criteria that must be met to recognize profit by the full accrual method. One of those criteria is that the seller has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property. For purposes of this Issue, the seller is the investor who sold the real estate to the jointly owned entity, and the buyer is the other investor in the jointly owned entity. If the seller has complied with all the provisions of Statement 66 to use the full accrual method but retains an equity interest in the real estate or has an equity interest in the buyer, Statement 66 requires the seller to account for the sale as a partial sale.

3. Paragraph 26 of Statement 66 indicates that if the seller has an obligation to repurchase the real estate or if the terms of the transaction allow the buyer to compel the seller or give an option to the seller to repurchase the real estate, the seller is considered to have a prohibited form of continuing involvement that would preclude profit recognition. Some have questioned whether a buy-sell clause should be considered a prohibited form of continuing involvement under paragraph 26 of Statement 66 that would preclude partial sale and profit recognition.

Issue

4. The issue is whether a buy-sell clause represents a prohibited form of continuing involvement that would preclude partial sale and profit recognition pursuant to Statement 66.

Current EITF Discussion

5. At the September 11, 2007 EITF meeting, the Task Force reached a consensus-for-exposure that a buy-sell clause, in and of itself, does not constitute a prohibited form of continuing involvement that would preclude partial sales treatment under Statement 66. However, a buy-sell clause may constitute a prohibited form of continuing involvement that precludes partial sales treatment if the buyer cannot act independently from the seller or if the seller is economically compelled to reacquire the other investor's interest in the jointly owned entity (thereby reacquiring the real estate). The assessment of whether the terms of a buy-sell clause constitutes a prohibited form of continuing involvement is a matter of judgment, and all relevant facts and circumstances of the arrangement should be considered. The Task Force considered factors that the seller should consider in its evaluation of whether the buy-sell clause constitutes a prohibited form of continuing involvement. The Task Force did not consider any one factor to be presumptive or determinative but agreed that all factors must be considered. The factors discussed included the following:

Factors that may indicate that the seller has substantial continuing involvement in the real estate:

a. The price specified in a buy-sell clause may indicate that the parties have already negotiated for the seller to acquire the buyer's interest. For example, a fixed price is specified in the buy-sell clause.

b. The seller has a strategic necessity or an investment strategy that indicates that it cannot relinquish its ownership rights to the buyer and therefore compel the seller to reacquire full ownership of the real estate.

c. The seller has arrangements with the jointly owned entity, such as management or third-party leasing arrangements, that may economically compel the seller to reacquire the real estate in order to retain the economic benefits (for example, leasing commissions from lessees) or escape the negative economic consequences (for example, below-market contract with the entity) of such arrangements.

d. Tax implications economically compel the seller to acquire the buyer's interest in the entity (thereby reacquiring the real estate).

Factors that may indicate that the buyer can compel the seller to repurchase the property:

a. The buyer is financially unable to acquire the seller's interest. A requirement for an appraisal or for the offer price to be at fair value may provide protection to the buyer in such circumstances and provide evidence that the buyer is financially unable to acquire the seller's interest. However, a requirement for an appraisal may not be evidence of compulsion in other situations.

b. The buy-sell clause stipulates a specified rate of return to the buyer (or seller), indicating that the buyer may not fully participate in the rewards of ownership from the real estate.

c. The buyer has a strategic necessity or an investment strategy that requires that it sell its interest to the seller.

d. The buyer is legally restricted from acquiring the seller's interest.

e. If the real estate is integrated into the seller's business, the buyer may not have alternative means available, such as sale to an independent third party, to realize its economic interest.

f. Tax implications economically compel the buyer to sell its interest in the entity to the seller.

6. The Task Force observed that this Issue applies to sales of real estate within the scope of Statement 66. The Task Force also asked the staff to inquire of users whether any incremental disclosures are necessary.

7. A draft abstract is included in Appendix 07-6A.

Transition

8. The Task Force reached a consensus-for-exposure that this Issue should be effective for new arrangements entered into in fiscal years beginning after December 15, 2007, and interim periods within those fiscal years. Earlier application is not permitted.

Board Ratification

9. At its September 26, 2007 meeting, the Board [ratified] the consensuses-for-exposure reached by the Task Force in this Issue and approved the issuance of a draft abstract for a public comment period.

Status

10. The draft abstract will be posted to the FASB website after October 1, 2007. Comments on the draft abstract are due by October 22, 2007. Further discussion is expected at a future meeting.

Appendix 07-6A

EITF ABSTRACTS **(DRAFT)**[1]

Issue No. 07-6

EITF Issue No. 07-6, Accounting for the Sale of Real Estate Subject to the Requirements of FASB Statement No. 66 When the Agreement Includes a Buy-Sell Clause

Dates Discussed: September 11, 2007; [November 28–29, 2007]

Objective

1. The objective of this Issue is to establish considerations for determining whether a buy-sell clause is a prohibited form of continuing involvement that would preclude partial sales treatment under Statement 66.

All paragraphs in this Issue have equal authority. Paragraphs in bold set out the main principles.

Background

2. When investors enter into an arrangement to create a jointly owned entity and one investor sells real estate to that entity, a buy-sell clause often is included in the agreement between the investors. The buy-sell clause is a contractual term that gives both of the investors of the jointly-owned entity the ability to offer to buy the other investor's interest. In some cases the buy-sell clause may be executed at any time or in other cases only at some specified future date. When an offer is made pursuant to the buy-sell clause, the recipient of the offer can elect to sell its interest for the offered amount or buy the offeror's interest at the offered amount. Generally, once an offer is made, the offeror is contractually required to buy the other investor's interest or sell its interest at the offered amount depending on the other investor's election. A buy-sell clause can specify that the offer be at fair value, at a contractually specified amount, or at an amount determined by the offeror, which is the most common type.

3. Statement 66 includes guidance on the accounting for sales of real estate and criteria that must be met to recognize profit by the full accrual method. One of those criteria is that the seller has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property. For the purpose of this Issue, the seller is the investor who sold the real estate to the jointly owned entity. The buyer is the other investor in the jointly owned entity. If the seller has complied with all the provisions of Statement 66 to use the full accrual method but retains an equity interest in the real estate or has an equity interest in the buyer, Statement 66 requires the seller to account for the sale as a partial sale.

[1] **This draft abstract is being exposed for a public comment period that will end on October 22, 2007.**

4. Paragraph 26 of Statement 66 indicates that if the seller has an obligation to repurchase the real estate or if the terms of the transaction allow the buyer to compel the seller or give an option to the seller to repurchase the real estate, the seller is considered to have a prohibited form of continuing involvement that would preclude profit recognition. Some have questioned whether a buy-sell clause would be considered a prohibited form of continuing involvement under paragraph 26 of Statement 66 and therefore preclude partial sale and profit recognition.

Scope

5. This Issue applies to a real estate sale transaction subject to the requirements of Statement 66 when the transaction includes a buy-sell clause.

6. The scope of this Issue includes sales of real estate to an entity that is partially owned by the seller and the arrangement between the seller and the other investor of the jointly owned entity includes a buy-sell clause. Except for the potential effect of the buy-sell clause, the seller of the real estate as contemplated in this Issue has met the criteria in Statement 66 to recognize a partial sale. This Issue does not apply to transactions that are outside the scope of Statement 66.

Recognition

7. Determining whether the terms of the buy-sell clause indicate that the seller has transferred the usual risks and rewards of ownership and does not have substantial continuing involvement is a matter of judgment and requires consideration of all relevant facts and circumstances of the transaction at the time the real estate is sold.

8. A buy-sell clause, in and of itself, does not constitute a prohibited form of continuing involvement that would preclude partial sales treatment under Statement 66. However, a buy-sell clause may constitute a prohibited form of continuing involvement if the buyer cannot act independently from the seller or if the seller is economically compelled to reacquire the other investor's interest in the jointly owned entity (thereby reacquiring the real estate). Determining whether the terms of the buy-sell clause constitutes a prohibited form of continuing involvement is a matter of judgment and all of the relevant facts and circumstances of the arrangement should be considered. Examples of factors that the seller should consider in its evaluation of whether the buy-sell clause constitutes a prohibited form of continuing involvement are included below. These examples are not intended to be presumptive or determinative.

Factors that may indicate that the seller has substantial continuing involvement in the real estate:

a. The price specified in a buy-sell clause may indicate that the parties have already negotiated for the seller to acquire the buyer's interest. For example, a fixed price is specified in the buy-sell clause.

b. The seller has a strategic necessity or an investment strategy that indicates that it cannot relinquish its ownership rights to the buyer and therefore compel the seller to reacquire full ownership of the real estate.

c. The seller has arrangements with the jointly owned entity, such as management or third-party leasing arrangements, that may economically compel the seller to reacquire the real estate in order to retain the economic benefits (for example, leasing commissions from lessees) or escape the negative economic consequences (for example, below-market contract with the entity) of such arrangements.

d. Tax implications economically compel the seller to acquire the buyer's interest in the entity (thereby reacquiring the real estate).

Factors that may indicate that the buyer can compel the seller to repurchase the property:

a. The buyer is financially unable to acquire the seller's interest. A requirement for an appraisal or for the offer price to be at fair value may provide protection to the buyer in such circumstances and provide evidence that the buyer is financially unable to acquire the seller's interest. However, a requirement for an appraisal may not be evidence of compulsion in other situations.

b. The buy-sell clause stipulates a specified rate of return to the buyer (or seller), indicating that the buyer may not fully participate in the rewards of ownership from the real estate.

c. The buyer has a strategic necessity or an investment strategy that requires that it sell its interest to the seller.

d. The buyer is legally restricted from acquiring the seller's interest.

e. If the real estate is integrated into the seller's business, the buyer may not have alternative means available, such as sale to an independent third party, to realize its economic interest.

f. Tax implications economically compel the buyer to sell its interest in the entity to the seller.

Transition

9. This Issue shall be effective for new arrangements entered into in fiscal years beginning after December 15, 2007, and interim periods within those fiscal years. Earlier application is not permitted.

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

References:

FASB Statement No. 66, *Accounting for Sales of Real Estate*

Status of Open Issues and Agenda Committee Items

The following represents the FASB staff's assessment of the status and immediate plans with respect to the open Issues on the Task Force's agenda. The Issues on the proposed agenda for the November 28-29, 2007 meeting are considered either high priority issues or issues on which meaningful progress can be made within the staff's given complement of resources. The staff's prioritization of issues is based primarily on the FASB staff's understanding of the level of diversity in practice created by each respective Issue, the financial reporting implications of that diversity, the current interaction, if any, of the Issues with active Board projects, and current resource availability among the staff (with respect to both time and relevant technical expertise).

Issue No.	Description	Date Added	Date(s) Discussed	Next Meeting	EITF Liaison	FASB Staff	Immediate Plans	Due Date - Next Deliverable
07-1	Accounting for Collaborative Arrangements Related to the Development and Commercialization of Intellectual Property	8/06	3/07, 6/07, 9/11	11/07	Schroeder	Bolash/ Paul	The FASB staff will prepare an Issue Supplement for a future meeting	November 28-29, 2007 EITF meeting
07-4	The Application of the Two-Class Method to Master Limited Partnerships under FASB Statement No. 128, *Earnings per Share*	4/07	6/07, 9/11	11/07	Bielstein	Wyatt/ TBD	The FASB staff will prepare an Issue Supplement for a future meeting	November 28-29, 2007 EITF meeting
07-5	Determining Whether an Instrument (or an Embedded Feature) Is Indexed to an Entity's Own Stock	9/07	9/11	11/07	Bielstein	Stevens/ Malcolm	The FASB staff will form a working group for this Issue and prepare an Issue Supplement for a future meeting	November 28-29, 2007 EITF meeting

Issue No.	Description	Date Added	Date(s) Discussed	Next Meeting	EITF Liaison	FASB Staff	Immediate Plans	Due Date - Next Deliverable
07-6	Accounting for the Sale of Real Estate When the Agreement Includes a Buy-Sell Clause	9/07	9/11	11/07	Bielstein	Maples/ Wyatt	The FASB staff will prepare an Issue Supplement for a future meeting	November 28-29, 2007 EITF meeting

Other EITF Issues including Inactive Issues Pending Developments in Board Projects							
Issue No.	**Description**	**Date Added**	**Date(s) Discussed**	**Next Meeting**	**FASB Staff**	**Immediate Plans**	**Due Date - Next Deliverable**
00-27	Application of EITF Issue No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios," to Certain Convertible Instruments	5/00	11/00, 1/01	Not scheduled	TBD	Pending further progress on Phase II of the Board's liabilities and equity project.	N/A
02-D	The Effect of Dual-Indexation both to a Company's Own Stock and to Interest Rates and the Company's Credit Risk in Evaluating the Exception under Paragraph 11(a)(1) of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*	3/02	N/A	Not scheduled	TBD	Pending further progress on Phase II of the Board's liabilities and equity project.	N/A

Other EITF Issues including Inactive Issues Pending Developments in Board Projects							
Issue No.	**Description**	**Date Added**	**Date(s) Discussed**	**Next Meeting**	**FASB Staff**	**Immediate Plans**	**Due Date - Next Deliverable**
03-15	Interpretation of Constraining Conditions of a Transferee in a Collateralized Bond Obligation Structure	11/02	N/A	Not scheduled	Lusniak	The Board's project on QSPE's is not expected to address this Issue and, therefore, the FASB staff will bring this Issue to the Agenda Committee at a future meeting to determine whether to begin discussions on this Issue or to request that the Task Force remove this Issue from the agenda.	Future Agenda Committee or EITF Meeting
06-12	Accounting for Physical Commodity Inventories for Entities within the Scope of the AICPA Audit and Accounting Guide, *Brokers and Dealers in Securities*	8/06	11/06	Not scheduled	Fanzini/ TBD	Pending the outcome of the Board's project to amend ARB No. 43, *Restatement and Revision of Accounting Research Bulletins*.	Future EITF Meeting

Issues Pending Further Consideration by the Agenda Committee							
Issue No.	**Description**	**Date Added**	**Date(s) Discussed**	**Next Meeting**	**FASB Staff**	**Immediate Plans**	**Due Date - Next Deliverable**
N/A	Application of EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets," When a Special-Purpose Entity Holds Equity Securities and Whether an Investment That Is Redeemable at the Option of the Investor Should Be Considered an Equity Security or Debt Security	9/00	N/A	Not scheduled	TBD	Statement 155 did not address this Issue. Therefore, the FASB staff will bring this Issue to the Agenda Committee at a future meeting to determine whether to begin discussions on this Issue.	Future Agenda Committee