Emerging Issues Task Force
Agenda Committee Report
July 30, 2008 Agenda Decisions

0908REPORT

Emerging Issues Task Force Agenda Committee
Descriptions of Potential New Issues
Discussion Date: July 28, 2008

1. Consideration of the Impact of Statement 160 on Accounting for Freestanding Derivative Financial Instruments Indexed to, and Potentially Settled in, the Stock of a Consolidated Subsidiary

Background

FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, which amends AICPA ARB No. 51, *Consolidated Financial Statements*, and which is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, requires that a noncontrolling interest, the ownership interest in a subsidiary held by parties other than the parent, be classified within equity, not as a liability. EITF Issue No. 00-6, "Accounting for Freestanding Derivative Financial Instruments Indexed to, and Potentially Settled in, the Stock of a Consolidated Subsidiary," addresses the accounting for freestanding derivative instruments indexed to the stock of a consolidated subsidiary. Issue 00-6 was not amended by Statement 160; however, in paragraph B35 of the basis for conclusions of Statement 160, the Board stated that

> The Board acknowledges that there is an inconsistency between its decisions in this Statement and the guidance in Issue 00-6 because in Issue 00-6 the Task Force reached a consensus that "stock of a subsidiary is not considered equity of the parent (reporting entity)" (paragraph 3). The Board did not address that inconsistency as part of this Statement although it may do so in the future in a separate project.

Currently, Issue 00-6 states that a freestanding contract indexed to the stock of a consolidated subsidiary does not qualify for the scope exception in paragraph 11(a) of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. 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. As a result, the consensus in Issue 00-6 precludes equity classification and typically results in derivative accounting for instruments indexed to and potentially settled in the stock of a consolidated subsidiary. As noncontrolling interests will be classified in equity after the effective date of Statement 160, some constituents have requested that the Board, or the EITF, consider the inconsistency that the Board acknowledged in the basis for conclusions for Statement 160.

Certain other standards currently treat the stock of a subsidiary as being equivalent to stock issued by the parent. FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, specifies in its application that "For financial instruments issued by members of a consolidated group of entities, *issuer's equity shares* includes the equity shares of any entity whose financial statements are included in the consolidated financial statements." EITF Issue No. 99-1, "Accounting for Debt Convertible into the Stock of a Consolidated Subsidiary," states that convertible debt issued by an entity and convertible into the stock of a consolidated subsidiary should be accounted for in accordance with APB Opinion No. 14, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants*. The consensus in that Issue states,

> The Task Force observed that the embedded instrument described in the above paragraph (the conversion feature on the shares of the stock of a consolidated subsidiary) is not permitted to be separated from the debt instrument and accounted for as a derivative instrument by the issuer pursuant to Statement 133, since a separate instrument with the same terms as the embedded instrument meets the exception in paragraph 11(a) of Statement 133.

Similarly, EITF Issue No. 86-32, "Early Extinguishment of a Subsidiary's Mandatorily Redeemable Preferred Stock," treats the extinguishment of a subsidiary's redeemable preferred stock as a capital transaction, with no gain or loss recognized upon the acquisition of a subsidiary's preferred stock.

Accounting Issue and Alternatives

Whether Issue 00-6 should be amended to treat stock issued by a subsidiary as being equivalent to stock issued by the parent.

View A: Issue 00-6 should be revised to state that freestanding contracts indexed to the stock of a consolidated subsidiary should be evaluated ***in the same manner*** *as contracts indexed to the stock of the parent for purposes of determining whether such instruments are noncontrolling interests (presented as a component of stockholders' equity after Statement 160) or derivatives.*

Proponents of View A believe that such a change would also align Issue 00-6 with the existing guidance in Issues 99-1 and Statement 150, both of which treat the stock of a consolidated subsidiary in the same manner as stock of the parent for purposes of evaluating equity-linked financial instruments and embedded features within their respective scopes.

View A proponents note that amending Issue 00-6 to evaluate subsidiary stock in a manner consistent with the parent's stock would require entities to evaluate freestanding contracts indexed to the stock of a consolidated subsidiary under other GAAP including Statement 133, Issues 00-19 and 07-5, Statement 150, and FSP FAS 150-3, *Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests under FASB Statement No. 150*, before concluding that equity treatment is appropriate.

Opponents to View A note that the consensus in Issue 00-6 states that some Task Force members thought that the consensus was inconsistent with Issue 99-1 and that other Task Force members disagreed. Additionally, View A opponents note that Statement 150 requires that certain types of contracts with characteristics of both liabilities and equity be classified as liabilities; it does not specify when a contract should be classified as equity. Therefore, View A opponents do not believe that consistency with Issue 99-1 or Statement 150 is a basis for amending Issue 00-6.

View B: Issue 00-6 should ***not*** *be revised.*

Proponents of View B believe that derivative contracts indexed to and potentially settled in the stock of a consolidated subsidiary should not be eligible for the scope exception in paragraph 11(a) of Statement 133. View B proponents believe that such contracts, whether issued by the parent or the subsidiary, are not equivalent to contracts indexed to the stock of the parent and meet the definition of either an asset or a liability both prior to and after the effective date of Statement 160. These proponents note that in paragraph B33 in the basis for conclusions for Statement 160, the Board states that

> The Board noted that the existence of a noncontrolling interest in a subsidiary does not give rise to a present obligation of the consolidated group. Not one of the entities involved—the parent, the subsidiary, or the consolidated entity—is obligated to transfer assets or provide services to the owners of interests in the subsidiary.

View B proponents agree that the existence of a noncontrolling interest does not give rise to a present obligation of the consolidated group, however, these proponents assert that the existence of a derivative contract indexed to the stock of a consolidated subsidiary *does*.

Additionally, View B proponents assert that Statement 160 precludes contracts within the scope of Issue 00-6 from being considered equity because paragraph 27 of Statement 160 states that "Only a financial instrument issued by a subsidiary that is classified as equity in the subsidiary's financial statements can be a noncontrolling interest in the consolidated financial statements."

Opponents to View B believe that paragraph 27 precludes contracts within the scope of Issue 00-6 from being classified within the noncontrolling interest in the consolidated statements but not from being classified as equity of the parent. View B opponents believe that classification within parent equity is appropriate for such contracts as the cost and the potential benefit of such contracts accrues entirely to the holders of the parent stock and are not shared with the noncontrolling interest holders.

Agenda Decision: ***This issue was added to the EITF agenda.***

2. Accounting for Purchases and Sales of Partial Interests in a Subsidiary That Is In Substance Real Estate

Background

FASB Statement No. 66, *Accounting for Sales of Real Estate*, establishes criteria governing the method and timing of profit recognition on all real estate sales transactions, including partial real estate sales. Paragraph 101 of Statement 66 notes that the sale of corporate stock of an enterprise with substantial real estate and sales of partnership interests, if the sales are in substance real estate, are examples of real estate sales transactions. Under Statement 66, the timing and amount of the gain on a partial sale depends (in part) on the completion of the sale including collectibility of the sales price, whether the seller has an obligation to support the operations of the property greater than its proportionate interest and the proportionate interest sold. Assuming the criteria are met, profit is recognized on the sale date and equals the difference between the sales price and the proportionate cost of the partial interest sold. Additionally, the buyer must be independent of the seller.

FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, establishes the accounting for noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Statement 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Statement 160 applies to all entities that prepare consolidated financial statements except not-for-profit organizations. Generally, Statement 160 will require that an entity treat its sale of a partial interest in a subsidiary, when the entity maintains control of the subsidiary, as an equity transaction in which no gain or loss is recognized. Conversely, if an entity sells an interest in a subsidiary that results in the entity losing control of that subsidiary, the entire subsidiary is deconsolidated and a gain or loss is recorded, measured as the difference between:

1. The aggregate of:
    a. The fair value of any consideration received
    b. The fair value of any retained interest in the former subsidiary
    c. The carrying amount of any noncontrolling interest in the former subsidiary.
2. The carrying amount of the former subsidiary's assets and liabilities.

This results in the balance sheet reflecting the retained interest at its fair value on the deconsolidation date.

Statement 160 does not contain an exception for noncontrolling interests in a subsidiary that is in substance real estate nor does it amend Statement 66. Consequently, it has been noted that there will be partial sales of subsidiaries that will fall within the scope of both Statements. Application of the Statements appears to result in different bases for the retained interest, different timing for recognition of profit, and, at times, different amounts of profit.

During redeliberations on the fair value option Phase I standard, the Board considered whether to create an exception to FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities,* for items within the scope of Statement 66. At its January 24, 2007 meeting, the Board deliberated whether such an exception should be created for investments that are in substance real estate, removing them from the scope of Statement 159. At that meeting, the Board voted not to create such an exception.

Accounting Issue and Alternatives

How an entity should account for partial sales and purchases of interests in a subsidiary that is in substance real estate after the effective date of Statement 160.

View A: An entity should continue to apply Statement 66 to partial sales and purchases of interests in a subsidiary that is in substance real estate after the effective date of Statement 160.

Proponents of View A believe that Statement 66 is specific to sales of real estate and that the more generic guidance in Statement 160 does not apply to such sales, regardless of their form. They note paragraph 101 of Statement 66 specifically states that sales of corporate stock with substantial real estate and sales of partnership interests that are in substance real estate are sales of real estate and within the scope of that Statement.

View A proponents also believe that application of Statement 160 to these sales would result in inconsistent treatment for partial real estate sales when the sale is completed via sale of an ownership interest in an entity compared with sales completed through direct ownership of the real estate. These proponents believe that allowing the form to dictate the treatment of the real estate sale allows entities to choose between the two models to select their preferred accounting treatment, effectively creating an optional treatment.

Opponents of View A note that typically the determination of whether a subsidiary is in substance real estate can be complex and could already lead to inconsistent treatment for similar transactions, depending on an entity's judgment. These opponents also note there are two current standards under which the partial sale of real estate would result in different gain treatment than Statement 66. Paragraph 29 of FASB Interpretation No. 43, *Real Estate Sales*, states that

> The Board believes that a marketable investment in an entity with substantial real estate (for example, an investment in a REIT) is in substance an investment in real estate. However, the Board concluded that an exception to the provisions of Statement 66 should be provided for the sale or transfer of an investment in a security that is accounted for in accordance with Statement 115, even if that investment is in substance an investment in real estate.

Accordingly, the sale or transfer of an investment in a REIT (real estate investment trust) that was accounted for in accordance with FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, is subject to FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, rather than Statement 66. Additionally, an entity can elect the fair value option under FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, when the entity ceases to consolidate a subsidiary but retains an interest. This election would result in immediate recognition of any profit and measurement of the remaining interest at fair value.

View B: An entity should apply Statement 160 to partial sales and purchases of interests in all subsidiaries, including one that is in substance real estate after the effective date of Statement 160.

Proponents of View B believe that the Board's basis for finalizing Statement 160 applies equally to all subsidiaries, including those that are considered in substance real estate. The basis for conclusions of Statement 160, paragraph B34, states that

> The Board concluded that a noncontrolling interest represents the residual interest in the net assets of a subsidiary within the consolidated group held by owners other than the parent… Therefore, the Board concluded that a noncontrolling interest should be classified as equity in the consolidated statement of financial position.

These proponents agree with the Board's conclusion that "a decrease in a parent's ownership interest in a subsidiary to the point that the parent no longer has a controlling financial interest in that subsidiary is a significant economic event." View B proponents assert that the Board's basis for its decisions is not affected by the nature of the assets and liabilities that are contained within a subsidiary.

Proponents of View B also note that at its January 24, 2007 meeting, the Board deliberated whether an exception to Statement 159 should be created for investments that are in substance real estate, removing them from the scope of that Statement. At that meeting, the Board voted not to create such an exception. Thus entities already have an option to account for their equity method investments that resulted from the partial sale of a subsidiary, which would qualify as in substance real estate, at fair value.

Opponents of View B believe that the nature of the assets and liabilities contained within a subsidiary should be an important consideration in determining the treatment of transfers of ownership interests in that subsidiary. They note that Statement 140 applies to transfers of financial assets whether the transfer takes place through a direct transfer or through transfer of ownership interests in an entity containing the financial assets.

View B opponents acknowledge that the Board voted not to create an exception to Statement 159; however, they do not believe there is a parallel that can be drawn to the application of Statement 160. These opponents note that Statement 159 is an option, while Statement 160 must be applied to all subsidiaries. They also note that Statement 159 results in a fair value measurement basis as long as the entity retains its interest in the former subsidiary. Statement 160 results in fair value treatment only once, at the date of derecognition, but not thereafter. Therefore, these opponents believe that Statement 160 is more likely to result in entities manipulating earnings through structuring of their real estate sales. The opponents believe that the following table will reflect the structuring opportunities afforded to entities:

Entity:	**Property Value has:**	**Entity will structure sale to apply:**
Retains control	Increased	Statement 66 for proportionate gain recognition
	Decreased	Statement 160 as a portion of loss is recorded in equity with no P&L impact[1]
Loses control	Increased	Statement 160 for full gain recognition
	Decreased	Statement 66 for proportionate loss recognition[1]

<u>Agenda Decision:</u> ***This issue was not added to the EITF agenda.***

[1] An impairment charge may not have been recorded under FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, if the undiscounted cash flows associated with the asset group are sufficient to recover the carrying value of the assets.

3. **Consideration of the Impact of Statements 141(R) and 160 on Accounting for Equity Method Investments**

Background

The objective of the FASB's business combinations project is to improve and converge internationally the accounting for business combinations and the reporting of noncontrolling interests in consolidated financial statements. FASB Statements No. 141 (revised 2007), *Business Combinations*, and No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, concluded a joint effort by the IASB and the FASB to converge the accounting for business combinations as well as the accounting and reporting of noncontrolling interests in consolidated financial statements. The intent was not to prompt a reconsideration of the equity method of accounting. However, some of the accounting for equity method investments described in APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock,* is based on a reference to the accounting for subsidiaries and acquisitions of subsidiaries, which was impacted by the new statements. Additionally, certain amendments made by Statements 141(R) and 160 to Opinion 18 have caused confusion as to how the equity method should be applied after the effective date of those statements. In particular, questions have arisen as to the measurement basis of equity method investments and accounting for purchases and sales of incremental ownership interests in equity method investees. (For example, purchasing additional shares and moving from 5 percent to 20 percent or from 20 percent to 30 percent, or selling shares resulting in the inverse.)

The rationale for the principles included in Statements 141(R) and 160 is based on the premise that the parent obtained/retains control of the subsidiary. Statement 141(R) is applicable to transactions or other events in which an entity (the acquirer) obtains control of one or more businesses (the acquiree). By definition, purchases and sales of ownership interests in equity method investments would not meet the definition of a business combination because control would not be obtained.

Prior to the issuances of Statements 141(R) and 160, acquisitions of additional ownership interests in investments accounted for under the equity method would follow the same accounting principles of a consolidated subsidiary, as indicated in Opinion 18.

Statements 141(R) and 160 made certain amendments to Opinion 18; specifically, paragraphs 19(e) and 19(m), to eliminate the reference "to account for the investee as if the investee were a consolidated subsidiary." However, paragraphs 6(b), 19(b), and 19(n), were not amended and specifically state that the accounting principles should be followed as if the investee were a consolidated subsidiary, which seems to result in a contradiction in the accounting treatment.

In summary, paragraphs 6(b), 19(b), and 19(n) of Opinion 18 continue to state that:

> ...a difference between the cost of an investment and the amount of the underlying equity in net assets of an investee should be accounted for **as if the investee were a consolidated subsidiary.** [Emphasis added.]

Furthermore, as indicated in paragraph B169 of FASB Statement No. 142, *Goodwill and Other Intangible Assets*, "An investor is therefore required to complete a purchase price allocation, which often results in identification of part of the difference as goodwill." That is to say that any excess of the investment cost over the investor's underlying equity in the investee should be assigned to assets and liabilities precisely in the same manner that the purchase price is allocated in a business combination under FASB Statement No. 141, *Business Combinations*.

Under the equity method, an investor initially records an investment in the stock of an investee **at cost**, and adjusts the carrying amount of the investment to recognize the investor's share of the earnings or losses of the investee after the date of acquisition. Further, an investment in common stock accounted for under the equity method is generally presented as an asset on one line on the balance sheet of an investor.

The staff has received inquiries from constituents about whether the purchase price allocation for an equity method investment should be performed using the cost of the investment as stated in paragraph 6(b) of Opinion 18 or the consideration transferred as determined by the acquisition method of Statement 141(R). This distinction will impact whether transaction costs should be included in the carrying value of the equity investment or expensed as incurred.

Statement 141(R) also requires the allocation of the purchase price to additional assets and liabilities that were previously not recognized or were immediately written off under Statement 141. Some constituents have expressed concern that they may not have the ability to obtain the information necessary to initially, and more importantly, subsequently evaluate these assets and liabilities each reporting period. Examples of assets and liabilities of concern include assets and liabilities arising from contingencies (such as litigation) and in-process research and development (IPR&D).

Additionally, paragraph 19(e) of Opinion 18 was amended by paragraph C3(b) of Statement 160, to include "on a step-by-step basis." Because paragraph 10 of AICPA Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, which addresses accounting for incremental purchases on a step-by-step basis, was deleted by Statement 160, it is not clear how "step-by-step" should be interpreted since the step acquisition method, as it is understood today, has been nullified. Under paragraph 32 of Statement 160, changes in a parent's ownership interest are treated as equity transactions unless a change of control occurs. Accordingly, assets and liabilities are only remeasured upon a change of control at which time a gain or loss is recognized on the pre-existing ownership interest. Under the step basis of paragraph 10 of ARB 51, the investor would allocate the cost of each incremental purchase to the underlying assets and liabilities of an acquired entity proportionally based on its incremental ownership interest without recognition of a gain or loss.

Accounting Issues and Alternatives

Issue 1: After the effective dates of Statements 141(R) and 160, how the initial carrying value of an equity method investment should be determined.

View A: Record equity method investments at cost.

Proponents of View A believe that paragraph 6(b) of Opinion 18 requires that the equity method investor record an investment in stock of an investee at cost. In practice, cost has generally been interpreted to include the direct acquisition costs related to the equity method investment, similar to the guidance in FASB Statement No. 141, *Business Combinations*, paragraph 24.

Proponents of View A note that capitalization of transaction costs in the carrying value of an asset is prevalent in the accounting literature, including the following standards (list not exhaustive): FASB Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*, FASB Technical Bulletin 90-1, *Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts*, FASB Statement No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects*, and AICPA Statement of Position 04-2 *Accounting for Real Estate Time-Sharing Transactions*, FASB Statement No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies*, EITF Issue No. 04-02, "Whether Mineral Rights Are Tangible or Intangible Assets," and FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises*.

View B: Record equity method investments at fair value consistent with Statement 141(R).

Proponents of View B note that in applying the "acquisition method" under Statement 141(R), a business combination is recognized at fair value in accordance with FASB Statement No. 157, *Fair Value Measurements*. As indicated in paragraph 9 of Statement 157,

> The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. Transaction costs represent the incremental direct costs to sell the asset or transfer the liability in the principal (or most advantageous) market for the asset or liability. Transaction costs are not an attribute of the asset or liability; rather, they are specific to the transaction and will differ depending on how the reporting entity transacts." [Footnote references omitted.]

In the basis for conclusions for Statement 141(R), the Board noted that acquisition-related costs are not part of the fair value exchange between the buyer and seller for the business, rather, that they are separate transactions in which the buyer pays for the fair value of services received.

Therefore, the Board concluded that acquisition-related costs associated with a business combination should generally be expensed as incurred.

View B proponents believe that acquisition-related costs for acquisitions of equity method investments should be expensed for the same reasons the Board cited in the basis for conclusions for Statement 141(R). These proponents also note that if an entity executes a step acquisition that results in gaining control of an investee that was previously accounted for under the equity method, application of paragraph 48 of Statement 141(R) would result in the previously capitalized transactions' costs being written off at the acquisition date as an out of period expense.

Issue 2: How the difference between the investor's carrying value, as determined in Issue 1, and the equity of the investee should be allocated to the underlying assets and liabilities of the investee and accounted for in subsequent periods.

View A: The allocation should be consistent with the guidance in Statement 141(R) with certain modifications.

Statement 141(R) requires most assets and liabilities to be recognized at their acquisition date fair value. View A proponents believe that Statement 141(R), after its effective date, is the appropriate framework for allocating the difference between the investor's carrying value of the investment and the underlying equity of the investee, with certain exceptions. View A proponents believe that the allocation to contingent assets and liabilities should be consistent with FASB Statement No. 5, *Accounting for Contingencies*, and other GAAP, not based on acquisition date fair values. View A proponents note that the basis for conclusions for Statement 141(R) states that the criterion for recognizing a contingent asset is whether it is more likely than not that the acquirer has gained control of a future economic benefit as a result of a past transaction or other event. For a contingent liability, the criterion focuses on whether it is more likely than not that the acquirer has a present obligation to sacrifice future economic benefits as a result of a past transaction or other event. View A proponents note that the conclusions reached in Statements 141(R) and 160 are from the perspective of a controlling owner. While an equity method investor presumably has the ability to exercise significant influence over the operating and financial policies of an investee, that ability does not rise to the level of control. Therefore, the equity method investor does not meet the criterion for recognition of contingent assets or liabilities under Statement 141(R). Additionally, information that may be available to a controlling owner may not be as easily obtained by an equity method investor. For example, an equity method investor may not have access to the controlling owner's assessment of litigation and potential outcomes and may not have the ability to determine the acquisition date fair values of contingencies.

View A proponents also believe that a subsequent impairment analysis of an IPR&D asset is not required to be performed for an equity method investment. They analogize to Statement 142, paragraph 40, and FASB Statement 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, paragraph 5, which preclude performing impairment evaluations of goodwill or long-lived assets relating to an equity method investment under those standards. They believe that impairment evaluations should be performed on the equity investment as a whole rather than on the underlying assets of the investee consistent with paragraph 19(h) of Opinion 18. Performing subsequent impairment assessments of an IPR&D asset would be inconsistent with this impairment principle.

View B: Allocate the differences in accordance with Statement 141(R).

Proponents of View B note that paragraph 6(b) of Opinion 18 was not amended by Statements 141(R) or 160, and that it states that "The difference between the cost of an investment and the amount of underlying equity in net assets of an investee should be accounted for as if the investee were a consolidated subsidiary." View B proponents believe that Statement 141(R) will be the only authoritative standard to provide a basis for performing an acquisition allocation. The provisions of Statement 141 were previously used to perform such allocation so they believe that the application of Statement 141(R) would follow once that Statement is effective. Proponents of View B believe that the appropriate allocation should be based on the assets and liabilities of the investee, not of the investor, and should be at fair value.

By definition, an equity method investor has the ability to exercise significant influence over the operating and financial policies of an investee. View B proponents believe that the ability to exercise significant influence over the investee should allow an equity method investor to access the requisite information necessary to value all assets and liabilities of an investee and subsequently monitor those assets and liabilities consistent with the requirements of Statement 141(R).

View B proponents note that paragraph 19(n) of Opinion 18 already provides that in the rare case that an equity method investor is unable to relate the difference to specific accounts of the investee, the difference shall be recognized as goodwill, which effectively provides an exception to allocating the difference to either assets or liabilities, which cannot be determined.

View B proponents also note that an IPR&D asset is an indefinite lived intangible asset that is not covered by paragraph 40 of Statement 142 or paragraph 5 of Statement 144. View B proponents believe that an investor should assess IPR&D assets for impairment in accordance with Statement 142 because it is consistent with the basic tenet of Opinion 18 that the investor should account for the difference between the cost of its investment and its underlying equity in the net assets of the investee as if the investee were a consolidated subsidiary. While the accounting literature is silent with respect to performing impairment analyses of indefinite lived intangible assets of an equity method investee, current practice is to perform impairment analyses of these assets under Statement 142 as if the investee were a consolidated subsidiary. View B proponents believe that to exclude IPR&D from such an evaluation would be inconsistent with the practice for other indefinite lived intangible assets and could mask an impairment of such an asset that may not be readily apparent from the investee's financial statements.

Agenda Decision: ***This issue was added to the EITF agenda.***

FASB EMERGING ISSUES TASK FORCE
Proposed September 10, 2008 Meeting Agenda

Issue Number	Issue	Proposed Time	Staff Assigned
	Administrative Matters - New Issues - Other Matters	11:00-11:15	Malcolm
08-F	Accounting for Contracts Indexed to, and Potentially Settled in, the Stock of a Consolidated Subsidiary	11:15-12:15	Homant/ Mills
	* * * LUNCH * * *	12:15-1:15	
08-1	Revenue Recognition for a Single Unit of Accounting	1:15-2:45	Maples/ Elsbree
08-5	Fair Value of a Liability with a Third-Party Guarantee	2:45-3:45	Mills/ Maples
	* * * BREAK * * *	3:45-4:00	
08-E	Accounting for Defensive Intangible Assets	4:00-5:00	Inzano/ Anderson
08-G	Accounting for Equity Method Investments	5:00-6:00	Bonn/ Moritz

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 September 10, 2008 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
08-1	Revenue Recognition for a Single Unit of Accounting	1/08	3/08,6/08	9/08	Uhl	Maples/ Elsbree	The FASB staff will prepare an Issue Supplement for a future meeting	September 10, 2008 EITF meeting
08-5	Fair Value of a Liability with a Third-Party Guarantee	6/08	6/08	9/08	M. Schroeder	Mills/ Maples	The FASB staff will prepare an Issue Supplement for a future meeting	Draft Abstract comment period closes August 4, 2008, September 10, 2008 EITF meeting

Issue No.	Description	Date Added	Date(s) Discussed	Next Meeting	EITF Liaison	FASB Staff	Immediate Plans	Due Date - Next Deliverable
08-E	Accounting for Defensive Intangible Assets	9/08		9/08	TBD	Inzano/ Anderson	The FASB staff will prepare an Issue Summary for a future meeting	September 10, 2008 EITF meeting
08-F	Accounting for Contracts Indexed to, and Potentially Settled in, the Stock of a Consolidated Subsidiary	9/08		9/08	TBD	Homant/ Mills	The FASB staff will prepare an Issue Summary for a future meeting	September 10, 2008 EITF meeting
08-G	Accounting for Equity Method Investments	9/08		9/08	TBD	Bonn/ Moritz	The FASB staff will prepare an Issue Summary for a future meeting	September 10, 2008 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**
03-15	Interpretation of Constraining Conditions of a Transferee in a Collateralized Bond Obligation Structure	11/02	N/A	Not scheduled	TBD	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.	TBD
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	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.	TBD