

## Topic No. D-1

**Topic:** Implications and Implementation of an EITF Consensus

**Dates Discussed:** September 25, 1984; February 14, 1985; December 3-4, 1986; March 10, 1988; November 21, 2002; January 23, 2003; May 15, 2003

Task Force members discussed the implications of a Task Force consensus on an accounting issue. The Task Force Chairman stated that the Task Force is not intended to be an accounting-standards-setting body. He summarized that the primary purpose of the Task Force is to identify emerging accounting issues and to advise the FASB staff on whether the issues require FASB action. He noted that the Task Force might reach a consensus that the accounting for a particular transaction or issue is clear or that a particular transaction or issue is analogous to a transaction or issue for which the accounting is already clear, such that a consistent accounting practice will evolve. Either consensus would obviate the need for FASB action. [Note: See Subsequent Developments section below.]

The SEC Observer stated that he believes a Task Force consensus will set the tone for future accounting and that he will question SEC registrants' accounting practices that differ from a Task Force consensus. He stated that he does not expect that a consensus of the Task Force will normally result in a challenge of the accounting followed in good faith in previously filed financial statements, but that such decisions will have to be made on a case-by-case basis. He noted that the staff of the SEC has always sought advice on accounting matters and that the EITF provides an opportunity to seek advice in a public forum.

In response to a request for information regarding the method of implementation of a Task Force consensus, the Task Force Chairman reported that the majority of Task Force members would permit a change in accounting method to adopt a Task Force consensus to be applied prospectively. The Task Force Chairman indicated that the FASB staff's analysis of this issue was that APB Opinion No. 20, *Accounting Changes*, would require a cumulative catch-up adjustment approach to implementing a Task Force consensus, and he asked for suggestions as to how this issue could be resolved. Task Force members suggested several approaches to the issue, and the Task Force Chairman indicated that the FASB staff would explore those alternatives.

The Task Force discussed the relationship of an EITF consensus and an FASB Technical Bulletin. Several Task Force members expressed concern that inclusion of an EITF consensus in an FASB Technical Bulletin might lead to the appearance that there are two classes of EITF consensuses—those that have been endorsed by the FASB in a Technical Bulletin and those that have not. Task Force members acknowledged that inclusion in a Technical Bulletin enhances the retrievability of an accounting position; however, they expressed a preference for incorporating the topical index for *EITF Abstracts* into the separate *Index to Original Pronouncements* and the topical indexes to *Current Text* and *Original Pronouncements* so users of those publications would be aware of other relevant material.

The Task Force Chairman indicated that the FASB staff is exploring alternatives to integrate various indexes and to enhance the retrievability of EITF issues. He requested input from Task Force members regarding possible improvements.

### **Subsequent Developments**

The topical index for *EITF Abstracts* was incorporated into the topical index for *Current Text* in the June 1, 1988 softbound edition. A combined index that includes *Original Pronouncements*, *Current Text*, *EITF Abstracts*, and Q&A Special Reports was added to both *Original Pronouncements* and *Current Text* in the June 1, 1989 softbound edition.

In January 1992, the AICPA issued Statement on Auditing Standards (SAS) No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles in the Independent Auditor's Report*, which revises the generally accepted accounting principles (GAAP) hierarchy. The application of EITF consensuses (category c of the hierarchy) effective after March 15, 1992 is mandatory under SAS 69. EITF consensuses issued before March 16, 1992 become effective in the hierarchy for initial application of an accounting principle after March 15, 1993.

In November 1992, the FASB issued FASB Statement No. 111, *Rescission of FASB Statement No. 32 and Technical Corrections*. Statement 111 amends FASB Interpretation No. 20, *Reporting Changes under AICPA Statements of Position*, which extends the provisions of paragraph 4 of Opinion 20, to include AICPA Statements of Position. Statement 111 further extends those provisions to EITF consensuses. Paragraph 5 of Interpretation 20 as amended states:

For purposes of applying *APB Opinion No. 20*, an enterprise making a change in accounting principle to conform with the recommendations of an AICPA statement of position or practice bulletin, an FASB technical bulletin, or a consensus of the FASB Emerging Issues Task Force (EITF) shall report the change as specified in the pronouncement. If the pronouncement does not specify the manner of reporting a change in accounting principle to conform with its recommendations, an enterprise making a change in accounting principle to conform with the recommendations of the pronouncement shall report the change as specified by Opinion 20, except that EITF consensuses may be applied prospectively to future transactions unless otherwise stated.

Paragraph 27 of Statement 111 explains this amendment by stating that "unless a consensus specifies the manner of reporting a change in accounting principle, an enterprise making a change in accounting principle to conform with an EITF consensus may apply the consensus prospectively to future transactions or may apply the provisions of Opinion 20 to prior transactions."

In June 1995, the FASB Committee to Review the EITF published its 10-year review of the EITF. That report recommended that the EITF consensuses be cross-referenced in *Original Pronouncements* and *Current Text*. The Committee's intent is to better communicate the authority of EITF consensuses and to make them "easier to use in relation to pronouncements to which they relate." In response to that recommendation, the June 1, 1996 softbound edition of *Original Pronouncements* and *Current Text* includes cross-references to EITF Issues. In *Original Pronouncements*, the status pages of applicable pronouncements have been updated to reflect either the impact of a given pronouncement on an EITF Issue (for example, resolves, nullifies, or affects that Issue) or the relationship of an EITF Issue to a given pronouncement (for example, interpretive or related). In *Current Text*, a list of EITF Issues that provide supplemental guidance on a topic has been added to each applicable section. Those EITF Issues may be either interpretive of or related by topic to the guidance in that section. For paragraphs where an EITF Issue(s) provides interpretive guidance, a note is added to alert the reader to that guidance.

At the November 21, 2002 meeting, the Task Force Chairman announced that beginning with the January 2003 EITF Agenda Committee meeting, two FASB Board members will become Agenda Committee members. In addition, beginning with the January 23, 2003 EITF meeting, all EITF consensuses will be subject to FASB Board ratification. That ratification will occur at a public Board meeting approximately two weeks following each EITF meeting. A consensus is not considered GAAP until ratified by the FASB.

At the January 23, 2003 meeting, the Task Force Chairman announced that in addition to the procedural changes announced at the November 21, 2002 meeting, the following changes to the EITF operating procedures were effective:

- A quorum is two-thirds of voting members or their approved substitutes.
- A consensus of the Task Force requires that no more than one-third of the voting members or approved substitutes present at the meeting object to a proposed position on an Issue. [Note: See subsequent modification in the following paragraph.]

At the May 15, 2003 meeting, the Task Force Chairman announced a further modification to the operating procedure revisions announced at the January 23, 2003 meeting: a consensus of the Task Force requires that no more than three voting members object to a proposed position on an Issue. Also at the May 15, 2003 meeting, the Task Force Chairman announced that, unless otherwise specified, the effective date for an EITF consensus shall be for transactions or arrangements entered into after the beginning of an entity's next reporting period beginning after the date of Board ratification of that

consensus.<sup>1</sup> For purposes of determining any cumulative effect of adopting a consensus, that determination must be made as of the beginning of the fiscal year containing the fiscal period during which the consensus becomes effective.<sup>2</sup> The Task Force will consider any unique transition or effective date considerations relevant to a particular consensus on a case-by-case basis.

In May 2005, the FASB issued FASB Statement No. 154, *Accounting Changes and Error Corrections*. Statement 154 supersedes Opinion 20, FASB Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*, and Interpretation 20. The Task Force should continue to establish transition provisions for EITF consensuses on an Issue-by-Issue basis by selecting the most appropriate transition for the specific circumstances. When establishing transition provisions, the Task Force should consider the emphasis that the Board placed on period-to-period comparability when it selected retrospective application as the “default” transition for new accounting principles and the required transition for voluntary changes in accounting principles. Additionally, if the Task Force decides that the application of a consensus should be reported as a cumulative-effect adjustment, it should consider providing guidance on the transition date and generally should require that any adjustment be made to retained earnings (or other appropriate components of equity or net assets). If no transition guidance is provided in a consensus for accounting changes made in fiscal years beginning after December 15, 2005 (the effective date of Statement 154), an entity shall apply the transition and disclosures required by paragraphs 7–11 and 15–18 of Statement 154. That is, for those EITF consensuses, an entity will apply the consensuses through retrospective application to all prior periods, unless it is impractical to do so.

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<sup>1</sup> For public entities that issue interim financial statements, that next reporting period will be the next interim period. For nonpublic entities, that next reporting period will be the next fiscal year.

<sup>2</sup> APB Opinion No. 28, *Interim Financial Reporting*, and Statement 154 provide guidance on reporting accounting changes in interim financial statements.