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FINANCIAL ACCOUNTING STANDARDS BOARD
401 Merritt 7, P.O. Box 5116
Norwalk, Connecticut 06856-5116
Telephone: 203-847-0700 *Fax*: 203-849-9470
Internet address: eitf@fasb.org or jwgeary@fasb.org

April 4, 2006

TO: MEMBERS OF THE FASB EMERGING ISSUES TASK FORCE

Included are the final minutes of the March 16, 2006 meeting of the FASB Emerging Issues Task Force and an inventory of open issues for the next EITF meeting. Also included is a confidential version of the minutes that has been marked for changes from the March 30 draft. After your review, please discard the confidential marked version of the minutes.

June Meeting Time and Location

The next EITF meeting will be held on **June 14–15, 2006,** at the FASB offices in Norwalk, Connecticut. (However, if no additional issues are added to the EITF agenda, the EITF Chairman may elect to only hold a one-day meeting on Thursday June 15, 2006.) Based on our preliminary thoughts, the meeting will begin on Wednesday, June 14, at 1:00 p.m. and conclude no later than 5:00 p.m. On Wednesday, the FASB will host a dinner at a location to be announced later. On Thursday, June 15, the meeting will begin at 8:00 a.m. and end no later than 4:00 p.m. Coffee will be available and lunch will be provided.

Minutes

We will make minutes available **after 4:00 p.m.** on the following days:

Draft minutes available	**June 20, 2006**
Final minutes available	**July 6, 2006**

Agenda Committee Meeting

The next Agenda Committee meeting will be held some time in early May. Materials for any potential new issues should be submitted as soon as possible. Once a meeting date has been set, a deadline for the agenda items will be communicated.

Please call me at extension x211 if you have any questions.

Sincerely,

James W. Geary
Practice Fellow
jwgeary@fasb.org
(203) 956-5211

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MINUTES OF THE MARCH 16, 2006 MEETING OF THE FASB EMERGING ISSUES TASK FORCE

Location: FASB Offices
401 Merritt 7
Norwalk, Connecticut

Thursday, March 16, 2006
Starting Time: 8:30 a.m.
Concluding Time: 4:15 p.m.

Task Force Members Present:
Lawrence W. Smith (Chairman)
Mark M. Bielstein
Frank H. Brod
Jack T. Ciesielski
Mitchell A. Danaher
Leland E. Graul
Joseph F. Graziano
Jan R. Hauser
David L. Holman
James A. Johnson
Carl Kampel[1]
Matthew L. Schroeder
Ashwinpaul C. (Tony) Sondhi
Lawrence E. Weinstock
Scott A. Taub (SEC Observer)

Task Force Members Absent:
Stuart H. Harden

[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
Katherine Schipper, FASB Board Member
Leslie F. Seidman, FASB Board Member
Edward W. Trott, FASB Board Member
Donald M. Young, FASB Board Member
Russell G. Golden, FASB Senior Technical Advisor
James W. Geary, FASB Practice Fellow
Shelly C. Luisi, SEC Senior Associate Chief Accountant
* Paul A. Beswick, FASB Practice Fellow
* Susan M. Cosper, FASB Practice Fellow
* Jason L. Jacobs, FASB Practice Fellow
* Stuart J. Moss, FASB Practice Fellow
* Reginald D. Oakley, FASB Practice Fellow
* Mark E. Trench, FASB Project Manager

* For certain issues only.

ADMINISTRATIVE MATTERS

- Prior Meeting Minutes. An FASB staff member solicited objections to the final minutes of the September 15, 2005 meeting. No objections were noted.

- The Task Force discussed the reports on the EITF Agenda Committee meetings held on October 10, 2005, November 22, 2005, February 2 and 7, 2006, and March 7, 2006. The following decisions were made by the Agenda Committee:

a. *Accounting for Payments Made by a Service Provider to Equipment Manufacturers and/or Retailers/Resellers of Specialized Equipment That Is Necessary for a Customer to Receive Service from the Service Provider*–Discussed October 10. The Agenda Committee decided to add this Issue to the EITF agenda. Refer to the discussion of EITF Issue No. 06-1, "Accounting for Consideration Given by a Service Provider to Manufacturers or Resellers of Equipment Necessary for an End-Customer to Receive Service from the Service Provider," elsewhere in these minutes.

b. *Accounting for Purchases of Life Insurance—Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4,* Accounting for Purchases of Life Insurance–Discussed October 10 and February 7. At its October 10, 2005 meeting, the Agenda Committee deferred making a decision on this potential new issue pending final issuance of FSP FTB 85-4-1, "Accounting for Life Settlement Contracts by Third Party Investors," to assess whether the Board would undertake a project to address the accounting for the purchases of life insurance other than life settlements. After it was understood that the Board would not add a project to its agenda on this issue, the FASB staff requested that the Agenda Committee consider whether to add this issue to the EITF agenda. At its February 7, 2006 meeting, the Agenda Committee agreed to add this issue to the EITF agenda.

c. *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Split-Dollar Life Insurance Arrangements*–Discussed November 22. The Agenda Committee decided to add this Issue to the EITF agenda. Refer to the discussion of EITF Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements," elsewhere in these minutes.

d. *Reconsideration of EITF Issue No. 04-6, "Accounting for Stripping Costs Incurred during Production in the Mining Industry"*–Discussed November 22. The Agenda Committee decided to <u>not</u> add this Issue to the EITF Agenda. However, the Agenda Committee agreed with the FASB staff that the production phase of a mine does not yet commence if only incidental mineral material has been extracted. Therefore, the FASB staff was asked to clarify the language in Issue 04-6 to address the removal of overburden and waste that includes incidental mineral material. Refer to discussion below.

e. *How Sales Taxes Collected from Customers and Remitted to Taxing Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)*–Discussed

February 2. The Agenda Committee decided to add this Issue to the EITF agenda. Refer to the discussion of EITF Issue No. 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)," elsewhere in these minutes.

f. *Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43,* Accounting for Compensated Absences–Discussed February 2. The Agenda Committee decided to add this Issue to the EITF agenda. Refer to the discussion of EITF Issue No. 06-2, "Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43, *Accounting for Compensated Absences*," elsewhere in these minutes.

g. *Transactions Involving the Purchase of Financial Assets and Simultaneous Repurchase of the Same Financial Assets with the Seller*–Discussed March 7. The Agenda Committee deferred making a decision on this potential new issue pending a decision by the Board to add to its agenda a project to provide guidance on the issue.

- Editorial Change to EITF Issue No. 04-6, "Accounting for Stripping Costs Incurred during Production in the Mining Industry." An FASB staff member reported that Task Force members, through an electronic submission, did not object to the editorial changes suggested by the FASB staff to clarify the definition of *production phase* of a mine in paragraph 4 of Issue 04-6. In addition the Board, at its January 11, 2006 meeting, ratified the following proposed editorial change (additions are underscored and deletions are struck through).

> 4. For purposes of this Issue, the definition of the production phase of a mine is as follows:
>
> > The production phase of a mine is deemed to have begun when saleable minerals are extracted (produced) <u>from an ore body</u>, regardless of the level of production ~~or revenues~~. <u>However, the production phase does not commence with the removal of *de minimis* saleable mineral material that occurs in conjunction with the removal of overburden or waste material for the purpose of obtaining access to an ore body.</u>

- Comment letters on the following Issues were reported as received:

a. EITF Issue No. 06-2, "Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43, *Accounting for Compensated Absences*" (Comment Letters Nos. 1 & 2)[1]

[1] Discussion of comment letters occurred during discussion of the related Issue.

b. EITF Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements" (Comment Letters Nos. 1–3).[2]

- June 2006 EITF Meeting: The FASB staff asked Task Force members to anticipate a day-and-a-half EITF meeting to be held on June 14–15, 2006.

- The Task Force held a closed administrative session.

[2] Discussion of comment letters occurred during discussion of the related Issue.

CONSENSUS MODIFICATION

Issue No. 05-7

Title: Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues

Date Discussed: March 16, 2006

At the September 15, 2005 EITF meeting, the Task Force reached a consensus in Issue 05-7 that an issuer should (1) include, upon modification of a convertible debt instrument, the change in fair value of the related embedded conversion option in the analysis to determine whether a debt instrument has been extinguished pursuant to EITF Issue No. 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments," (2) account for the effects of the change in the fair value of the related embedded conversion option in subsequent recognition of interest expense for the associated debt instrument, and (3) not recognize a beneficial conversion feature or reassess an existing beneficial conversion feature upon modification of the conversion option of a debt instrument.

Subsequent to Board ratification of Issue 05-7 on September 28, 2005, the FASB staff became aware of questions in practice about the applicability of Issue 05-7 to debt instruments that are modified to either add or eliminate an embedded conversion option (including a conversion option, in either the original or the modified instrument, that is required to be bifurcated by the issuer from its host pursuant to FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*).

At the March 16, 2006 EITF meeting, the FASB staff stated that it believes that the scope of Issue 05-7 includes modifications to debt instruments that either add or eliminate an embedded conversion option. However, the FASB staff also stated that it does not believe the scope of Issue 05-7 should include instruments with embedded conversion options, in either the original or the modified instrument, that are required to be bifurcated by the issuer from their hosts pursuant to Statement 133 because the Task Force did not deliberate those types of instruments in this Issue.

At the March 16, 2006 EITF meeting, the Task Force agreed to clarify the scope of Issue 05-7 and Issue 96-19 by adding the following paragraph to the abstract of each Issue. The Task Force also agreed that the modification should be effective beginning after the date of Board ratification and accounted for prospectively.

> At the March 16, 2006 EITF meeting, the Task Force agreed to clarify that the consensus in Issue 05-7 also applies to a modification of a debt instrument that either adds or eliminates an embedded conversion option that is not bifurcated from its host contract pursuant to Statement 133. The Task Force also agreed that the scope of Issue 05-7 does not include the modification of debt instruments that either add or eliminate an embedded conversion option that is required to be bifurcated by the issuer from the host contract pursuant to Statement 133 because

the Task Force did not discuss those circumstances in its deliberations on Issue 05-7.

Board Ratification

At its March 28, 2006 meeting, the Board ratified the modification to the consensus in this Issue.

REVISED SEC STAFF ANNOUNCEMENT

Topic: Revision to *EITF Abstracts*, Topic No. D-98, "Classification and Measurement of Redeemable Securities"

Date Discussed: March 16, 2006

The SEC staff announced the following change to Topic D-98 (additions are underscored):

> 31. At the March 16, 2006 meeting, the SEC Observer clarified the SEC staff's position on the application of Topic D-98 to certain share-based payment arrangements with employees. The SEC staff believes that for options or similar instruments granted in conjunction with share-based payment arrangements with employees for which the terms may permit redemption of the option or underlying share, the initial amount classified outside of permanent equity should be based on the redemption provisions of the instrument.[5] For example, upon issuance of a fully vested option that allows the holder to put the option back to the issuer at its intrinsic value upon a change in control, an amount representing the intrinsic value of the option at the date of issuance should be presented outside of permanent equity. The guidance in paragraphs 15–17 should be followed to determine the amount of any subsequent adjustments.[6]

[5] As discussed in the Interpretive Response to Question 2 in Section E of SAB 107, the amount presented in temporary equity at each balance sheet date should take into account the proportion of consideration received in the form of employee services.

[6] Registrants should also consider the guidance in FSP FAS 123(R)-4, "Classification of Options and Similar Instruments Issued as Employee Compensation That Allow for Cash Settlement upon the Occurrence of a Contingent Event," when evaluating the classification of options or similar instruments whose terms may permit redemption of the option or underlying share.

DISCUSSION OF AGENDA TECHNICAL ISSUES

Issue No. 05-1

Title: Accounting for the Conversion of an Instrument That Became Convertible upon the Issuer's Exercise of a Call Option

Dates Discussed: March 17, 2005; June 15–16, 2005; September 15, 2005; March 16, 2006

References: FASB Statement No. 5, *Accounting for Contingencies*

FASB Statement No. 15, *Accounting by Debtors and Creditors for Troubled Debt Restructurings*

FASB Statement No. 84, *Induced Conversions of Convertible Debt*

FASB Statement 128, *Earnings per Share*

FASB Technical Bulletin No. 80-1, *Early Extinguishment of Debt through Exchange for Common or Preferred Stock*

Proposed FASB Statement, *Earnings per Share*, issued September 30, 2005

APB Opinion No. 14, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants*

APB Opinion No. 26, *Early Extinguishment of Debt*

AICPA Accounting Interpretation 1, *Debt Tendered to Exercise Warrants*, of APB Opinion No. 26

Introduction

1. At the September 29–30, 2004 EITF meeting, a consensus was reached on EITF Issue No. 04-8, "The Effect of Contingently Convertible Instruments on Diluted Earnings per Share." Subsequently, the question was raised as to whether the contingently convertible instruments (CoCos) addressed in Issue 04-8 also may contain an embedded issuer call option that, upon exercise, permits conversion of an instrument by the holder even when the instrument's market price trigger has not been met. Although this Issue was raised in the context of CoCos with market price triggers, it also extends beyond market price triggers to any situation in which a call option permits conversion of an instrument by the holder that is not otherwise currently convertible. These call options provide the issuer with the ability to call the debt at any time (excluding lock-out periods). Upon exercise of the call option, the holder has the ability to receive cash for the call price or a defined number of equity shares or, in some cases, a combination of cash and shares. However, the holder typically will choose to receive equity if the value of the equity exceeds the cash call price of the debt.

2. To illustrate the underlying issue, consider the following example:

> An entity issues a CoCo on January 1, 2006, with a market price trigger, a $1,000 par amount, and a maturity date of December 31, 2020. The debt instrument is convertible at the option of the holder if the share price of the issuer exceeds a specified amount. The issuer can call the debt at any time between 2009 and the maturity date of the debt. If the issuer calls the debt, the holder has the option to receive cash for the call amount or a fixed number of shares as specified in the terms of the instrument upon issuance, regardless of whether the market price trigger has been met. In 2010, the issuer calls the debt prior to the market price trigger being met and the holder elects to receive a fixed number of shares (as specified in the terms of the instrument).

Issue

3. The issue is how the conversion of an instrument that became convertible upon the issuer's exercise of a call option should be accounted for.

Scope

4. This Issue applies to the issuance of equity securities to settle a debt instrument that was not otherwise currently convertible but became convertible upon the issuer's exercise of a call option when the issuance of equity securities is pursuant to the instrument's original conversion terms. Statement 84 provides guidance about conversions pursuant to terms that reflect changes made by the debtor to the conversion privileges provided in the terms of the debt at issuance to induce conversion, and EITF Issue No. 05-7, "Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues," provides guidance about modifications to embedded conversion options.

Prior EITF Discussion

5. At the March 17, 2005 EITF meeting, the Task Force reached a tentative conclusion that no gain or loss should be recognized upon the conversion of an instrument that became convertible as a result of an issuer's exercise of a call option pursuant to the original terms of the instrument. The Task Force based its tentative conclusion on the fact that Opinion 26 does not apply to debt that is converted to equity of the issuer based on conversion privileges that were included in the terms of the instrument.

6. The Task Force asked the FASB staff to consider the earnings per share treatment for these instruments before the exercise of the call option and provide examples to compare that treatment with the earnings per share treatment for instruments with similar terms. The examples also illustrate the application of Opinion 26 to these similar instruments. The FASB staff provided the Task Force with these examples for the June 15–16, 2005 EITF meeting.

7. At the June 15–16, 2005 EITF meeting, the Task Force discussed the previous tentative conclusion but was not asked to reach a consensus. Certain Task Force members proposed alternatives that would result in either debt conversion accounting or debt extinguishment accounting depending on whether the shares underlying the conversion were included in diluted earnings per share before the issuer exercised its call. Other Task Force members proposed alternatives based on whether the instruments could be converted due to factors that were not within the control of the issuer. The Task Force asked the FASB staff to research these alternatives for consideration at a future EITF meeting.

8. At the September 15, 2005 EITF meeting, the Task Force discussed accounting for the conversion of an instrument that became convertible upon the issuer's exercise of a call option but was unable to reach a consensus. Task Force members were divided between treating all such conversions as extinguishments and treating only conversions of instruments that did not otherwise contain a substantive conversion feature as extinguishments. Consequently, the Task Force no longer supported its previous tentative conclusion and asked the FASB staff to research the operationality of an alternative view that would result in either debt conversion accounting or debt extinguishment accounting depending on whether the instrument, at issuance, contains a substantive conversion feature that is outside the control of the issuer.

Current EITF Discussion

9. At the March 16, 2006 EITF meeting, the Task Force reached a tentative conclusion that the issuance of equity securities to settle a debt instrument (pursuant to the instrument's original conversion terms) that became convertible upon the issuer's exercise of a call option should be accounted for as a conversion if the debt instrument contained a substantive conversion feature as of its issuance date. That is, no gain or loss should be recognized related to the equity securities issued to settle the instrument. The issuance of equity securities to settle a debt instrument that became convertible upon the issuer's exercise of a call option should be accounted for as a debt extinguishment if the debt instrument did not contain a substantive conversion feature as of its issuance date. That is, the fair value of the equity securities issued should be considered a component of the reacquisition price of the debt.

10. The Task Force agreed that, for purposes of applying its tentative conclusion:

a. A substantive conversion feature is a conversion feature that is at least reasonably possible (the term *reasonably possible* has the same meaning that it has in Statement 5) of becoming exercisable absent the issuer's exercise of its call option
b. The issuance date of an instrument is the instrument's commitment date, as defined in Issue 4 of EITF Issue No. 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"
c. The assessment of whether the conversion feature is substantive may be performed after the issuance date but should be based only on assumptions, considerations, and/or marketplace information available as of the issuance date.

11. The Task Force also agreed that the illustrative examples provided to facilitate its discussion of this Issue should not be included in the draft abstract. Rather, certain methods of evaluating the substance of a conversion feature that were implicit in the examples should be described in the draft abstract. Additionally, the Task Force agreed that the draft abstract should clarify that the consensus in this Issue does not affect the treatment of an instrument for purposes of applying Statement 128 and related interpretive guidance, including Issue 04-8.

12. The Task Force also discussed the interaction of the scope of this Issue and the guidance in EITF Issue No. 03-7, "Accounting for the Settlement of the Equity-Settled Portion of a Convertible Debt Instrument That Permits or Requires the Conversion Spread to Be Settled in

Stock (Instrument C of EITF Issue No. 90-19, 'Convertible Bonds with Issuer Option to Settle for Cash upon Conversion')." The Task Force reached a tentative conclusion that Issue 03-7 should be amended to clarify that Issue 03-7 does not apply to settlements within the scope of this Issue and that such an amendment should be exposed, along with the draft abstract reflecting the tentative conclusion in this Issue, for a 30-day public comment period. A draft abstract for Issue 03-7 showing the necessary changes is included as Appendix 05-1B (additions are underscored and deletions are struck through).

Transition

13. The Task Force reached a tentative conclusion that this Issue should apply to all conversions within the scope of this Issue that result from the exercise of call options that occur in interim or annual reporting periods beginning after the date the Board ratifies the consensus, irrespective of whether the instrument was entered into prior or subsequent to ratification of this Issue. For instruments issued prior to the effective date of this consensus, the assessment as to whether a substantive conversion feature existed at issuance should be based only on assumptions, considerations, and/or marketplace information available as of the issuance date.

14. Early application of this Issue is permitted in periods for which financial statements have not yet been issued. Retrospective application to previously issued financial statements is not permitted.

Board Ratification

15. At its March 28, 2006 meeting, the Board ratified the tentative conclusions reached by the Task Force in this Issue and approved the issuance of a draft abstract for a 30-day public comment period. A draft abstract is included as Appendix 05-1A.

Status

16. The draft abstract will be posted to the FASB website after April 4, 2006. Comments on the draft abstract are due by May 4, 2006. Further discussion is expected at a future meeting.

Appendix 05-1A

EITF ABSTRACTS (DRAFT[1])

Issue No. 05-1

Title: Accounting for the Conversion of an Instrument That Became Convertible upon the Issuer's Exercise of a Call Option

Dates Discussed: March 17, 2005; June 15–16, 2005; September 15, 2005; March 16, 2006; [June 14–15, 2006]

References: FASB Statement No. 5, *Accounting for Contingencies*

FASB Statement No. 15, *Accounting by Debtors and Creditors for Troubled Debt Restructurings*

FASB Statement No. 84, *Induced Conversions of Convertible Debt*

FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*

FASB Statement 128, *Earnings per Share*

FASB Technical Bulletin No. 80-1, *Early Extinguishment of Debt through Exchange for Common or Preferred Stock*

Proposed FASB Statement, *Earnings per Share*, issued September 30, 2005

APB Opinion No. 14, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants*

APB Opinion No. 26, *Early Extinguishment of Debt*

AICPA Accounting Interpretation 1, *Debt Tendered to Exercise Warrants*, of APB Opinion No. 26

ISSUE

1. At the September 29–30, 2004 EITF meeting, a consensus was reached on Issue No. 04-8, "The Effect of Contingently Convertible Instruments on Diluted Earnings per Share." The contingently convertible instruments (CoCos) addressed in Issue 04-8 also may contain an embedded issuer call option that, upon exercise, permits conversion of an instrument by the holder even when the instrument's market price trigger has not been met. Although this Issue was raised in the context of CoCos with market price triggers, it also extends beyond market price triggers to any situation in which a call option permits conversion of an instrument by the holder that is not otherwise currently convertible. These call options provide the issuer with the ability to call the debt at any time (excluding lock-out periods). Upon exercise of the call option, the holder has the ability to receive cash for the call price or a defined number of equity shares

[1] **This draft abstract is being exposed for a 30-day public comment period.**

or, in some cases, a combination of cash and shares. However, the holder typically will choose to receive equity if the value of the equity exceeds the cash call price of the debt.

2. To illustrate the underlying issue, consider the following example:

> An entity issues a CoCo on January 1, 2006, with a market price trigger, a $1,000 par amount, and a maturity date of December 31, 2020. The debt instrument is convertible at the option of the holder if the share price of the issuer exceeds a specified amount. The issuer can call the debt at any time between 2009 and the maturity date of the debt. If the issuer calls the debt, the holder has the option to receive cash for the call amount or a fixed number of shares as specified in the terms of the instrument upon issuance, regardless of whether the market price trigger has been met. In 2010, the issuer calls the debt prior to the market price trigger being met and the holder elects to receive a fixed number of shares (as specified in the terms of the instrument).

3. The issue is how the conversion of an instrument that became convertible upon the issuer's exercise of a call option should be accounted for.

Scope

4. This Issue applies to the issuance of equity securities to settle a debt instrument that was not otherwise currently convertible but became convertible upon the issuer's exercise of a call option when the issuance of equity securities is pursuant to the instrument's original conversion terms. Statement 84 provides guidance about conversions pursuant to terms that reflect changes made by the debtor to the conversion privileges provided in the terms of the debt at issuance to induce conversion and Issue No. 05-7, "Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues," provides guidance about modifications to embedded conversion options.

EITF DISCUSSION

5. The Task Force reached a [consensus] that the issuance of equity securities to settle a debt instrument (pursuant to the instrument's original conversion terms) that became convertible upon the issuer's exercise of a call option should be accounted for as a conversion if the debt instrument contained a substantive conversion feature as of its issuance date, as defined herein. That is, no gain or loss should be recognized related to the equity securities issued to settle the instrument. The issuance of equity securities to settle a debt instrument that became convertible upon the issuer's exercise of a call option should be accounted for as a debt extinguishment if the debt instrument did not contain a substantive conversion feature as of its issuance date. That is, the fair value of the equity securities issued should be considered a component of the reacquisition price of the debt.

6. For purposes of this Issue, the issuance date of an instrument is the instrument's commitment date, as defined in Issue 4 of Issue No. 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments." The assessment of whether the conversion feature is substantive may be performed after the issuance date but should be based only on assumptions, considerations, and/or marketplace information available as of the issuance date.

7. For purposes of applying this [consensus], a substantive conversion feature is a conversion feature that is at least reasonably possible of becoming exercisable absent the issuer's exercise of a call option. (The term *reasonably possible* has the same meaning that it has in Statement 5.)

8. For purposes of this Issue, the Task Force observed that if the conversion price of an instrument at issuance is extremely high so that conversion of the instrument is not deemed at least reasonably possible as of its issuance date then the conversion feature would not be considered substantive. The Task Force referred to footnote 15 of paragraph A9 of Statement 150 in making that determination. Therefore, even if such an instrument included a conversion feature that provided for conversion due solely to the passage of time (for example, the instrument will become convertible at a date prior to its maturity date), it would be inappropriate to conclude that the conversion feature at issuance was at least reasonably possible of becoming exercisable. The Task Force also observed that an instrument that can only become convertible upon the issuer's exercise of its call option does not possess a substantive conversion feature.

9. The Task Force observed that the following methods may be helpful in assessing whether a conversion feature is substantive (that is, a conversion feature is at least reasonably possible of becoming exercisable). This list is not intended to be all-inclusive.

a. **The fair value of the conversion feature relative to the fair value of the debt instrument.** Comparing the fair value of a conversion feature to the fair value of the debt instrument (that is, the complete instrument as issued) may provide evidence that the conversion feature is substantive.

b. **The effective annual interest rate per the terms of the debt instrument relative to the estimated effective annual rate of a nonconvertible debt instrument with an equivalent expected term and credit risk.** Comparing the effective annual interest rate per the terms of the debt instrument to the effective annual rate the issuer estimates it could obtain on a similar non-convertible instrument may provide evidence that a conversion feature is substantive.

c. **The fair value of the debt instrument relative to an identical instrument for which conversion is not contingent.** Comparing the fair value of the debt instrument to the fair value of an identical instrument for which conversion is not contingent isolates the impact of the contingencies and may provide evidence about the substance of a conversion feature. If the fair value of the debt instrument is similar to the fair value of an identical convertible debt instrument for which conversion is not contingent, then it may indicate that the conversion feature is substantive. However, this approach may not be appropriate unless it is clear that the conversion feature, not considering the contingencies, is substantive.

d. **Qualitative evaluation of the conversion provisions.** The nature of the conditions under which the instrument may become convertible may provide evidence that the conversion feature is substantive. For example, if an instrument may become convertible upon the occurrence of a specified contingent event, the likelihood that the contingent event will occur prior to its instrument's maturity date may indicate that the conversion feature is substantive. However, this approach may not be appropriate unless it is clear that the conversion feature, not considering the contingencies, is substantive.

10. Upon the settlement of an instrument that is within the scope of this Issue with the characteristics of Instrument C in Issue No. 90-19, "Convertible Bonds with Issuer Option to Settle for Cash upon Conversion," by payment of the accreted value of the obligation in cash and settlement of the conversion spread with stock, the cash payment should be considered in the computation of gain or loss on extinguishment of the recognized liability. The treatment of the shares transferred should be determined by reference to the guidance in this Issue.

11. The Task Force also observed that this Issue does not affect the treatment of an instrument for purposes of applying Statement 128 and related interpretive guidance, including Issue 04-8.

Transition

12. This Issue applies to all conversions within the scope of this Issue that result from the exercise of call options in interim or annual reporting periods beginning after Board ratification of the [consensus], irrespective of whether the instrument was entered into prior or subsequent to Board ratification of this Issue. For instruments issued prior to the effective date of this [consensus], the assessment as to whether a substantive conversion feature exists at issuance should be based only on assumptions, considerations and/or marketplace information available as of the issuance date.

13. Early application of this Issue is permitted in periods for which financial statements have not yet been issued. Retrospective application to previously issued financial statements is not permitted.

Board Ratification

14. At its [June 28, 2006] meeting, the Board ratified the [consensuses] reached by the Task Force in this Issue.

STATUS

15. No further EITF discussion is planned.

Appendix 05-1B

EITF ABSTRACTS (DRAFT*)

Issue No. 03-7

Title: Accounting for the Settlement of the Equity-Settled Portion of a Convertible Debt Instrument That Permits or Requires the Conversion Spread to Be Settled in Stock (Instrument C of Issue No. 90-19)

Dates Discussed: July 31, 2003; March 16, 2006; [June 14–15, 2006]

References: FASB Statement No. 84, *Induced Conversions of Convertible Debt*

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

FASB Statement No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*

FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*

FASB Statement No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*

FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*

FASB Technical Bulletin No. 80-1, *Early Extinguishment of Debt through Exchange for Common or Preferred Stock*

FASB Concepts Statement No. 6, *Elements of Financial Statements*

APB Opinion No. 14, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants*

APB Opinion No. 26, *Early Extinguishment of Debt*

AICPA Accounting Interpretation 1, "Early Extinguishment of Debt," of APB Opinion No. 26

ISSUE

1. Issue No. 90-19, "Convertible Bonds with Issuer Option to Settle for Cash upon Conversion," addresses the accounting for all convertible bonds with characteristics of

* **This draft abstract is being exposed for a 30-day public comment period.**

Instruments A, B, or C as described in that Issue.[1] Specifically, the issues addressed in Issue 90-19 are:

Issue 1— Whether the initial balance sheet treatment by the issuer should provide for separate or combined accounting for the conversion feature and debt obligation

Issue 2— How the issuer should account for the excess conversion spread over the accreted value

Issue 3— How each instrument should be treated in earnings-per-share computations.

2. The Task Force reached a consensus on Issue 1 that combined accounting for the conversion feature and debt obligation is appropriate for Instrument C. On Issue 2, the Task Force reached a consensus that Instrument C "should be accounted for *similarly to indexed debt obligations*" (emphasis added). That is, the issuer should adjust the carrying amount of the instrument in each reporting period to the higher of the current stock price or the accreted value of the instrument. The Task Force reconsidered that consensus guidance for Instrument C at the January 23–24, 2002 meeting to reflect the effect of the consensus guidance in Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock." Issue 00-19 addresses how freestanding derivative financial instruments that are indexed to, and potentially settled in, a company's own stock should be classified and measured by the company.

3. At the January 23–24, 2002, meeting the Task Force revised the prior consensuses on Issues 1 and 2 of Issue 90-19 that Instrument C should be accounted for like convertible debt if the conversion spread meets the requirements of Issue 00-19 for classification within permanent equity. Paragraph 4 of Issue 00-19 discusses the Task Force consensus:

> . . . for purposes of evaluating under Statement 133 whether an embedded derivative indexed to a company's own stock would be classified in stockholders' equity if freestanding, the requirements of paragraphs 12–32 of [Issue 00-19] do not apply if the hybrid contract is a conventional convertible debt instrument in which the holder may only realize the value of the conversion option by exercising the option and receiving the entire proceeds in a fixed number of shares or the equivalent amount of cash (at the discretion of the issuer).

4. The Task Force also observed that the requirements of paragraphs 12–32 of Issue 00-19 apply when an issuer is evaluating whether any other embedded derivative instrument is an equity instrument and thereby excluded from the scope of Statement 133. The January 23–24, 2002 meeting minutes for Issue 90-19 explain that because the features of Instrument C are sufficiently different from *conventional* convertible debt, paragraphs 12–32 of Issue 00-19

[1] Instrument A: Upon conversion, the issuer must satisfy the obligation entirely in cash based on the fixed number of shares multiplied by the stock price on the date of conversion (the conversion value).
Instrument B: Upon conversion, the issuer may satisfy the entire obligation in either stock or cash equivalent to the conversion value.
Instrument C: Upon conversion, the issuer must satisfy the accreted value of the obligation (the amount accrued to the benefit of the holder exclusive of the conversion spread) in cash and may satisfy the conversion spread (the excess conversion value over the accreted value) in either cash or stock.

should be applied in determining whether the conversion feature meets the criteria for classification as permanent equity. If the conversion feature does not meet those criteria, Instrument C should be bifurcated by the issuer and the bifurcated derivative (that is, the conversion feature) should be marked to market under the provisions of Statement 133.

5. While the Issue 90-19 consensus, as revised, provides guidance for the accounting for Instrument C at issuance, Issue 90-19 does not address the accounting at settlement for Instrument C, and questions have arisen in practice about the accounting for the excess of the conversion spread over the accreted value of the obligation at settlement. With the exception of Issue No. 05-1, "Accounting for the Conversion of an Instrument That Becomes Convertible upon the Issuer's Exercise of a Call Option," ~~C~~current accounting guidance for convertible debt (for example, Opinion 14, Opinion 26, Statement 84, and Issues No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios," and No. 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments") also does not specifically address the settlement accounting for Instrument C of Issue 90-19. Therefore, for settlement transactions other than those within the scope of Issue 05-1, this Issue addresses how the issuer should account at settlement for Instrument C in Issue 90-19 if the issuer settles the conversion spread in stock. If settled in cash, the issuer would record a gain or loss based on the total cash consideration compared with the carrying amount of the debt. This Issue assumes that the embedded conversion feature meets the criteria in paragraphs 12–32 of Issue 00-19 for classification within permanent equity. If it did not meet those criteria, this Issue would not arise because the embedded conversion feature would be bifurcated from the debt host as a separate liability and accounted for as a derivative.

6. The issue is how the issuer should account for the partial cash-based and partial stock-based settlement of a debt instrument structured in the form of Instrument C as described in Issue 90-19.

EITF DISCUSSION

7. The Task Force reached a consensus that upon settlement of a security (other than those instruments within the scope of Issue 05-1) with the characteristics of Instrument C in Issue 90-19 by payment of the accreted value of the obligation (recognized liability) in cash and settlement of the conversion spread (unrecognized equity instrument) with stock, only the cash payment should be considered in the computation of gain or loss on extinguishment of the recognized liability. That is, any shares transferred to settle the embedded equity instrument (referred to as the excess conversion spread in Issue 90-19) would not be considered in the settlement of the debt component.

Transition

8. This consensus is effective for settlement transactions entered into on or after the beginning of an entity's next reporting period beginning after August 13, 2003.

Board Ratification

9. At its August 13, 2003 meeting, the Board ratified the consensus reached by the Task Force in this Issue.

STATUS

10. No further EITF discussion is planned.

11. Issue 05-1 was ratified by the Board on [June 28, 2006], and amends this Issue to clarify that the issuance of equity securities to settle a debt instrument that became convertible upon the issuer's exercise of a call option is not within the scope of this Issue. Issue 05-1 requires that such conversion be accounted for as a debt conversion or debt extinguishment based on whether the instrument contained a substantive conversion feature as of its issuance date.

Issue No. 06-1

Title: Accounting for Consideration Given by a Service Provider to Manufacturers or Resellers of Equipment Necessary for an End-Customer to Receive Service from the Service Provider

Date Discussed: March 16, 2006

Introduction

1. Certain companies provide services to their customers that require the customers to purchase equipment in order to utilize their services. The equipment required is often manufactured and distributed by third-parties and sold to end-customers through resellers without the direct involvement of the service provider. Accordingly, a service provider may provide certain incentives to third-party manufacturers or resellers of the equipment (resellers) to reduce the selling price of the equipment in order to stimulate end-customer demand and, inherently, increase the demand for the service provider's service.

2. EITF Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)," provides guidance on the accounting for consideration given by a vendor to a customer. While some diversity exists, the incentives given by service providers to third-party manufacturers or resellers have generally been considered outside the scope of Issue 01-9.

Issue

3. The issue is whether the consideration given by a service provider to a manufacturer or a reseller of equipment that reduces the price of the equipment to an end-customer and is necessary for an end-customer to receive a service from the service provider should be accounted for pursuant to Issue 01-9.

Current EITF Discussion

4. At the March 16, 2006 EITF meeting, the Task Force discussed this Issue but was not asked to reach any conclusions. Some Task Force members stated that they believe that there could be circumstances in which consideration paid to a third-party manufacturer or a reseller should be accounted for pursuant to Issue 01-9. However, those Task Force members also expressed concerns over the practicability of determining linkage between the consideration given by the service provider to the equipment manufacturer or reseller and consideration received by the service provider's end-customer.

5. Task Force members also discussed how the consensus in Issue 01-9 might be applied and whether the model in Issue 01-9 was appropriate for the arrangements in this Issue, because Issue 01-9 did not specifically contemplate these types of arrangements. As a result, the Task Force asked the FASB staff to further explore the factors used in determining whether the consideration paid by the service provider to equipment manufacturers or resellers was, in substance, given to the end-customer and to explore the development of a separate model that could be used to account for these types of arrangements. In addition, the Task Force requested that the FASB

staff reconcile any model pursuant to this Issue with the model used in Issue 01-9 and highlight differences for consideration at a future meeting.

Status

6. Further discussion is expected at a future meeting.

Issue No. 06-2

Title: Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43, *Accounting for Compensated Absences*

Date Discussed: March 16, 2006

References: FASB Statement No. 43, *Accounting for Compensated Absences*

FASB Statement No. 87, *Employers' Accounting for Pensions*

FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*

FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*

FASB Statement No. 112, *Employers' Accounting for Postemployment Benefits*

FASB Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*

FASB Concepts Statement No. 6, *Elements of Financial Statements*

International Accounting Standard No. 19, *Employee Benefits*

Introduction

1. An entity may provide its employees with a benefit in the form of a compensated absence known as a sabbatical leave (sabbatical) whereby the employee is entitled to paid time off after working for an entity for a specified period of time. During the sabbatical, the individual continues to be a compensated employee and is not required to perform any duties for the entity.

2. In determining whether and, if so, when the cost of a sabbatical or other similar benefit arrangement should be accrued, entities have historically applied the guidance in paragraph 6 of Statement 43. Paragraph 6 of Statement 43 states, in part, that "an employer shall accrue a liability for employees' compensation for future absences if…(b) the obligation relates to rights that vest or accumulate" (footnote references omitted). In practice, questions have been raised with respect to the interpretation of paragraph 6(b) of Statement 43 as to whether, in the absence of a vesting condition, a sabbatical **accumulates**.

Issue

3. The issue is whether an employee's right to a compensated absence under a sabbatical or other similar benefit arrangement (a) that requires the completion of a minimum service period and (b) in which the benefit does not increase with additional years of service, accumulates pursuant to paragraph 6(b) of Statement 43. The scope of this Issue is limited to those arrangements under which the sabbatical or other similar benefit arrangement is unrestricted (that is, the employee is not required to perform any direct or indirect services for or on behalf of the entity during the absence). Arrangements in which employees are required to engage in research

or public service to enhance the reputation of or otherwise benefit the employer are not within the scope of this Issue.

Current EITF Discussion

4. At the March 16, 2006 EITF meeting, the Task Force reached a tentative conclusion that an employee's right to a compensated absence under a sabbatical or other similar benefit arrangement (a) that requires the completion of a minimum service period and (b) in which the benefit does not increase with additional years of service accumulates pursuant to paragraph 6(b) of Statement 43 for arrangements in which the individual continues to be a compensated employee and is not required to perform duties for the entity during the absence. Therefore, assuming all of the other conditions of paragraph 6 of Statement 43 are met, the compensation cost associated with a sabbatical or other similar benefit arrangement should be accrued over the requisite service period.

Transition

5. The Task Force also reached a tentative conclusion that this Issue should be applied in financial reports for fiscal years beginning after the date the consensus is ratified by the Board. The Task Force requested that the FASB staff specifically request input from constituents as to whether the transition provisions are practical. Entities should recognize the effects of applying the consensus on this Issue as a change in accounting principle through retrospective application to all prior periods unless it is impracticable to do so. This should include the recognition of:

a. The cumulative effect of the change to the new accounting principle on periods prior to those presented reflected in the carrying amounts of assets and liabilities as of the beginning of the first period presented
b. An offsetting adjustment, if any, made to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that period
c. Adjustments to financial statements for each individual prior period presented to reflect the period-specific effects of applying the new accounting principle.

6. If the cumulative effect of applying the change in accounting principle to all prior periods can be determined but it is impracticable to determine the period-specific effects of that change on all prior periods presented, the cumulative effect of the change should be applied to the carrying amounts of assets and liabilities as of the beginning of the earliest period to which the new accounting principle can be applied. An offsetting adjustment, if any, should be made to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that period. If it is impracticable to determine the cumulative effect of applying a change in accounting principle to any prior period, the new accounting principle should be applied as if the change was made prospectively as of the earliest date practicable.

7. Upon 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 income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), any other affected financial statement line item, and any affected per-share amounts for the current period and for any prior periods retrospectively adjusted
c. The cumulative effect of the change on retained earnings or other components of equity or net assets in the statement of financial position as of the beginning of the earliest period presented.

Board Ratification

8. At its March 28, 2006 meeting, the Board ratified the tentative conclusions reached by the Task Force in this Issue and approved the issuance of a draft abstract for a 30-day public comment period. A draft abstract is included as Appendix 06-2A.

Status

9. The draft abstract will be posted to the FASB website after April 4, 2006. Comments on the draft abstract are due by May 4, 2006. Further discussion is expected at a future meeting.

Appendix 06-2A

EITF ABSTRACTS (DRAFT[1])

Issue No. 06-2

Title: Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43

Dates Discussed: March 16, 2006; [June 14–15, 2006]

References: FASB Statement No. 43, *Accounting for Compensated Absences*

FASB Statement No. 87, *Employers' Accounting for Pensions*

FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*

FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*

FASB Statement No. 112, *Employers' Accounting for Postemployment Benefits*

FASB Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*

FASB Concepts Statement No. 6, *Elements of Financial Statements*

International Accounting Standard No. 19, *Employee Benefits*

ISSUE

1. An entity may provide its employees with a benefit in the form of a compensated absence known as a sabbatical leave (sabbatical) whereby the employee is entitled to paid time off after working for an entity for a specified period of time. During the sabbatical, the individual continues to be a compensated employee and is not required to perform any duties for the entity.

2. In determining whether and, if so, when the cost of a sabbatical or other similar benefit arrangement should be accrued, entities have historically applied the guidance in paragraph 6 of Statement 43. Paragraph 6 of Statement 43 states in part that "an employer shall accrue a liability for employees' compensation for future absences if…(b) the obligation relates to rights that vest or accumulate" (footnote references omitted) In practice, questions have been raised with respect to the interpretation of paragraph 6(b) of Statement 43 as to whether, in the absence of a vesting condition, a sabbatical **accumulates**.

3. The issue is whether an employee's right to a compensated absence under a sabbatical or other similar benefit arrangement (a) that requires the completion of a minimum service period and (b) in which the benefit does not increase with additional years of service accumulates pursuant to paragraph 6(b) of Statement 43. The scope of this Issue is limited to those

[1] **This draft abstract is being exposed for a 30-day public comment period.**

arrangements under which the sabbatical or other similar benefit arrangement is unrestricted (that is, the employee is not required to perform any direct or indirect services for or on behalf of the entity during the absence). Arrangements in which employees are required to engage in research or public service to enhance the reputation of or otherwise benefit the employer are not within the scope of this Issue.

EITF DISCUSSION

4. The Task Force reached a [consensus] that an employee's right to a compensated absence under a sabbatical or other similar benefit arrangement (a) that requires the completion of a minimum service period and (b) in which the benefit does not increase with additional years of service accumulates pursuant to paragraph 6(b) of Statement 43 for arrangements in which the individual continues to be a compensated employee and is not required to perform duties for the entity during the absence. Therefore, assuming all of the other conditions of paragraph 6 of Statement 43 are met, the compensation cost associated with a sabbatical or other similar benefit arrangement should be accrued over the requisite service period.

Transition

5. The Task Force reached a [consensus] that this Issue should be applied in financial reports for fiscal years beginning after the date the [consensus] is ratified by the Board. Entities should recognize the effects of applying the [consensus] on this Issue as a change in accounting principle through retrospective application to all prior periods unless it is impracticable to do so. This should include the recognition of:

a. The cumulative effect of the change to the new accounting principle on periods prior to those presented reflected in the carrying amounts of assets and liabilities as of the beginning of the first period presented
b. An offsetting adjustment, if any, made to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that period
c. Adjustments to financial statements for each individual prior period presented to reflect the period-specific effects of applying the new accounting principle.

6. If the cumulative effect of applying the change in accounting principle to all prior periods can be determined but it is impracticable to determine the period-specific effects of that change on all prior periods presented, the cumulative effect of the change should be applied to the carrying amounts of assets and liabilities as of the beginning of the earliest period to which the new accounting principle can be applied. An offsetting adjustment, if any, should be made to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that period. If it is impracticable to determine the cumulative effect of applying a change in accounting principle to any prior period, the new accounting principle should be applied as if the change was made prospectively as of the earliest date practicable.

7. Upon 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 income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), any other affected financial statement line item, and any affected per-share amounts for the current period and for any prior periods retrospectively adjusted
c. The cumulative effect of the change on retained earnings or other components of equity or net assets in the statement of financial position as of the beginning of the earliest period presented.

Board Ratification

8. At its [June 28, 2006] meeting, the Board ratified the [consensuses] reached by the Task Force in this Issue.

STATUS

9. No further EITF discussion is planned.

Issue No. 06-3

Title: How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)

Date Discussed: March 16, 2006

References: FASB Statement No. 109, *Accounting for Income Taxes*

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

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

Introduction

1. Taxes are assessed by various governmental authorities on many different types of transactions. These taxes range from sales taxes that are applied to a broad class of transactions involving a wide range of goods and services to excise taxes that are applied only to specific types of transactions or items. The characteristics of how these different types of taxes are calculated, remitted to the governmental authority, and administered are numerous and varied and, therefore, very difficult to summarize into simple discernible models. Questions have arisen as to the income statement presentation for these types of taxes.

Issue

2. The issues are:

Issue 1— Whether the scope of this Issue should include (a) all nondiscretionary amounts assessed by governmental authorities, (b) all nondiscretionary amounts assessed by governmental authorities in connection with a transaction with a customer, or (c) only sales, use, and value added taxes

Issue 2— How taxes assessed by a governmental authority within the scope of this Issue (Issue 1) should be presented in the income statement (that is, gross versus net presentation).

Current EITF Discussion

3. At the March 16, 2006 EITF meeting, the Task Force reached a tentative conclusion on Issue 1 that the scope of this Issue includes any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer and may include, but is not limited to, sales, use, value added, and some excise taxes.

4. The Task Force reached a tentative conclusion on Issue 2 that the presentation of taxes within the scope of Issue 1 on either a gross (included in revenues and costs) or a net (excluded from revenues) basis is an accounting policy decision that should be disclosed pursuant to Opinion 22. In addition, for any such taxes that are reported on a gross basis, a company should disclose the amounts of those taxes in interim and annual financial statements for each period for which an income statement is presented if those amounts are significant. The disclosure of those taxes can be done on an aggregate basis.

5. The tentative conclusions reached in this Issue are not intended to readdress the consensuses in EITF Issues No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent," No. 00-10, "Accounting for Shipping and Handling Fees and Costs," and No. 01-14, "Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred."

Transition

6. The Task Force observed that because the tentative conclusion in this Issue requires only the presentation of additional disclosures, an entity would not be required to reevaluate its existing policies related to taxes assessed by a governmental authority that are directly imposed on a revenue-producing transaction between a seller and a customer. However, a company that chooses to reevaluate its existing policies and elects to change the presentation of taxes within the scope of this Issue must follow the requirements of Statement 154.

Effective Date

7. The Task Force also reached a tentative conclusion that this Issue should be applied to financial reports for interim and annual reporting periods beginning after December 15, 2006. Earlier application is permitted.

Board Ratification

8. At its March 28, 2006 meeting, the Board ratified the tentative conclusions reached by the Task Force in this Issue and approved the issuance of a draft abstract for a 30-day public comment period. A draft abstract is included as Appendix 06-3A.

Status

9. The draft abstract will be posted to the FASB website after April 4, 2006. Comments on the draft abstract are due by May 4, 2006. Further discussion is expected at a future meeting.

Appendix 06-3A

EITF ABSTRACTS (DRAFT[1])

Issue No. 06-3

Title: How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)

Dates Discussed: March 16, 2006; [June 14–15, 2006]

References: FASB Statement No. 109, *Accounting for Income Taxes*

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

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

ISSUE

1. Taxes are assessed by various governmental authorities on many different types of transactions. These taxes range from sales taxes that are applied to a broad class of transactions involving a wide range of goods and services to excise taxes that are applied only to specific types of transactions or items. The characteristics of how these different types of taxes are calculated, remitted to the governmental authority, and administered are numerous and varied and, therefore, very difficult to summarize into simple discernible models. Questions have arisen as to the income statement presentation of these types of taxes.

2. The issues are:

Issue 1— Whether the scope of this Issue should include (a) all nondiscretionary amounts assessed by governmental authorities, (b) all nondiscretionary amounts assessed by governmental authorities in connection with a transaction with a customer, or (c) only sales, use, and value added taxes

Issue 2— How taxes assessed by a governmental authority within the scope of the Issue (Issue 1) should be presented in the income statement (that is, gross versus net presentation).

[1] **This draft abstract is being exposed for a 30-day public comment period.**

EITF DISCUSSION

3. The Task Force reached a [consensus] on Issue 1 that the scope of this Issue includes any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer and may include, but are not limited to, sales, use, value added, and some excise taxes.

4. The Task Force reached a [consensus] on Issue 2 that the presentation of taxes within the scope of Issue 1 on either a gross (included in revenues and costs) or a net (excluded from revenues) basis is an accounting policy decision that should be disclosed pursuant to Opinion 22. In addition, for any such taxes that are reported on a gross basis, a company should disclose the amounts of those taxes in interim and annual financial statements for each period for which an income statement is presented if those amounts are significant. The disclosure of those taxes can be done on an aggregate basis.

5. The [consensuses] reached in this Issue are not intended to readdress the consensuses in Issues No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent," No. 00-10, "Accounting for Shipping and Handling Fees and Costs," and No. 01-14, "Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred."

Transition

6. The Task Force observed that because the [consensus] in this Issue requires only the presentation of additional disclosures, an entity would not be required to reevaluate its existing policies related to taxes assessed by a governmental authority that are directly imposed on a revenue-producing transaction between a seller and a customer. However, a company that chooses to reevaluate its existing policies and elects to change the presentation of taxes within the scope of this Issue must follow the requirements of Statement 154.

Effective Date

7. The [consensuses] in this Issue should be applied to financial reports for interim and annual reporting periods beginning after December 15, 2006. Earlier application is permitted.

Board Ratification

8. At its [June 28, 2006] meeting, the Board ratified the [consensuses] reached by the Task Force in this Issue.

STATUS

9. No further EITF discussion is planned.

Issue No. 06-4

Title: Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements

Date Discussed: March 16, 2006

References: FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*

FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*

FASB Concepts Statement No. 6, *Elements of Financial Statements*

FASB Technical Bulletin No. 85-4, *Accounting for Purchases of Life Insurance*

FASB Special Report, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*: *Questions and Answers*

APB Opinion No. 12, *Omnibus Opinion—1967*

AICPA Statement of Position 96-1, *Environmental Remediation Liabilities*

AICPA Issues Paper, *Accounting for Key-Person Life Insurance*, dated October 31, 1984

Introduction

1. Companies purchase life insurance for various reasons that may include protecting against the loss of "key" employees, funding deferred compensation and postretirement benefit obligations, and providing an investment return. One form of this insurance is split-dollar life insurance. The structure of split-dollar life insurance arrangements can be complex and varied.

2. The two most common types of arrangements are endorsement split-dollar life insurance policies and collateral assignment split-dollar life insurance policies. Generally, the difference between these arrangements is the ownership and control of the life insurance policy. For an endorsement split-dollar life insurance policy, the company owns and controls the policy, whereas in a collateral assignment split-dollar life insurance policy, the employee owns and controls the policy. Diversity in practice exists primarily in accounting for the deferred compensation and postretirement or postemployment aspects of typical endorsement split-dollar life insurance arrangements. A typical endorsement split-dollar life insurance policy may have the following terms:

> An employer purchases a life insurance policy to insure the life of an employee. The employer enters into a separate agreement that splits the policy benefits between the employer and the employee. The employer owns the policy, controls all rights of ownership, and may terminate the insurance arrangement (and in turn the policy benefits promised to the employee) if the employee departs the company prior to retirement. To effect the split-dollar arrangement, the employer endorses a portion of the death benefits to

the employee (the employee designates a beneficiary for this portion of the death benefits). Upon the death of the employee, the employee's beneficiary receives the designated portion of the death benefits and the employer receives the remainder of the death benefits. Depending on how the policy is structured, the beneficiary's proceeds are received directly either from the insurance company or from the employer (who remits the beneficiary's proportionate share once payment is received from the insurance company).

The employee's portion of the death benefits commonly is based on one of the following:

a. Amounts that exceed the gross premiums paid by the employer
b. Amounts that exceed the sum of the gross premiums paid by the employer and an additional fixed or variable investment return on those premiums
c. Amounts equal to a multiple of the employee's base salary at retirement or death (for example, twice the employee's base salary).

Issue

3. The issue is how an employer should account for the deferred compensation or postretirement or postemployment benefit aspects of a split-dollar life insurance arrangement that is in substance an endorsement type of policy.

Scope

4. The scope of this Issue is limited to the recognition of a liability and related compensation costs for endorsement split-dollar life insurance policies that provide a benefit to an employee that extends to postretirement or postemployment periods.

Current EITF Discussion

5. At the March 16, 2006 EITF meeting, the Task Force was unable to reach a consensus on this Issue but agreed to continue to discuss this Issue at a future meeting.

Status

6. Further discussion is expected at a future meeting.

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 June 14–15, 2006 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
05-1	Accounting for the Conversion of an Instrument That Became Convertible upon the Issuer's Exercise of a Call Option	11/04	3/05, 6/05, 9/05, 3/06	6/06	Graziano	Oakley/ Jacobs	The FASB staff will prepare an Issue Summary Supplement for the next meeting.	June 2006 EITF meeting
06-1	Accounting for Consideration Given by a Service Provider to Manufacturers or Resellers of Equipment Necessary for an End-Customer to Receive a Service from the Service Provider	10/05	3/06	6/06	Hauser	Cosper/ Beswick	The FASB staff will prepare an Issue Summary Supplement for the next meeting.	June 2006 EITF meeting
06-2	Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43, *Accounting for Compensated Absences*	2/06	3/06	6/06	Graul	Cosper/ Moss	The FASB staff will prepare an Issue Summary Supplement for the next meeting.	June 2006 EITF meeting

Issue No.	Description	Date Added	Date(s) Discussed	Next Meeting	EITF Liaison	FASB Staff	Immediate Plans	Due Date - Next Deliverable
06-3	How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)	2/06	3/06	6/06	Bielstein	Beswick/ Geary	The FASB staff will prepare an Issue Summary Supplement for the next meeting.	June 2006 EITF meeting
06-4	Accounting for the Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements	11/05	3/06	6/06	Holman	Moss/ Trench	The FASB staff will prepare an Issue Summary Supplement for the next meeting.	June 2006 EITF meeting
06-D	Accounting for Purchases of Life Insurance—Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, *Accounting for Purchases of Life Insurance*	2/06	N/A	6/06	TBD	Beswick/ Trench	The FASB staff will prepare an Issue Summary for a future meeting.	June 2006 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**
00-18	Accounting Recognition for Certain Transactions involving Equity Instruments Granted to Other Than Employees	5/00	7/00, 7/01, 11/01, 1/02, 3/02	NA	Sarno	Pending further progress on Phase II of the Board's share-based payments project.	N/A
	The remaining issue in Issue 00-18 is Issue 3: For transactions that include a grantee performance commitment, how the grantee should account for the contingent right to receive, upon performing as specified in the arrangement, grantor equity instruments that are the consideration for the grantee's future performance. The Task Force asked the FASB staff to focus on improving the guidance (originally from Issue 96-18) used to determine the date at which a commitment for counterparty performance to earn the equity instruments is reached.						
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	Richards	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**
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	Jacobs	Pending further progress on Phase II of the Board's liabilities and equity project.	N/A
03-15	Interpretation of Constraining Conditions of a Transferee in a Collateralized Bond Obligation Structure	11/02	N/A	Not scheduled	Lusniak	Pending developments in the Board's project on QSPE's and reconsideration by the FASB staff as to the extent of the issue.	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**
03-17	Subsequent Accounting for Executory Contracts That Have Been Recognized on an Entity's Balance Sheet	5/03	11/03	Not scheduled	Moss	Issue addresses the amortization of a recognized executory contract that has periods of both positive and negative cash flows. This issue is pending the Board's consideration of how the factors in paragraph 11(d) of Statement 142 should be evaluated in determining the useful life of an intangible asset (formerly EITF Issue 03-9).	N/A
04-7	Determining Whether an Interest Is a Variable Interest in a Potential Variable Interest Entity	5/04	6/04, 9/04, 11/04, 3/05	Not scheduled	Belcher	At its March 30, 2005 meeting, the Board agreed to add a project to provide guidance on the variability that should be considered when determining whether an interest is a variable interest. The FASB staff will ask the Task Force to remove this Issue from its agenda at a future meeting.	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**
05-4	The Effect of a Liquidated Damages Clause on a Financial Instrument Subject to EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock"	2/05	6/05, 9/05	N/A	Thuener/ Jacobs/ Richards	Pending further progress on a DIG Issue for determining whether a registration rights agreement is a derivative	N/A

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	Jacobs	Pending consideration of an FASB project that may address the measurement of beneficial interests in securitized financial instruments.	Pending develop-ments in a Board project