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

Location: FASB Offices
401 Merritt 7
Norwalk, Connecticut

Thursday, November 16, 2006
Starting Time: 8:00 a.m.
Concluding Time: 11:20 a.m.

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

Task Force Members Absent:
Frank H. Brod

[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
Thomas J. Linsmeier, 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
Susan M. Cosper, FASB Practice Fellow
Robert Laux for Mr. Brod
Shelly C. Luisi, SEC Senior Associate Chief Accountant
* Sheri E. Akinlade, FASB Practice Fellow
* Louis Fanzini, FASB Industry Fellow
* Jason L. Jacobs, FASB Practice Fellow
* Richard C. Paul, FASB Practice Fellow
* Christopher E. Roberge, FASB Project Manager
* Brian C. Stevens, 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 7, 2006 meeting. No objections were noted.

- The Task Force discussed the report on the EITF Agenda Committee meeting held on October 11, 2006. The Agenda Committee considered five issues and took the following actions:

a. *Accounting for the Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements.* The Agenda Committee decided to add this Issue to the EITF agenda. Refer to the discussion of EITF Issue No. 06-10, "Accounting for the Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements," elsewhere in these minutes.

b. *Accounting for the Tax Benefit of Dividends on Restricted Stock and Option Awards.* The Agenda Committee decided to add this Issue to the EITF agenda. Refer to the discussion of EITF Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards," elsewhere in these minutes.

c. *The Application of the Two Class Method to Master Limited Partnerships for FASB Statement No. 128,* Earnings per Share. The Agenda Committee recommended that the FASB and the IASB consider including this issue as part of the short-term international convergence project on earnings per share or, alternatively, that the FASB address this issue through the issuance of an FASB Staff Position. Pending action related to these recommendations, the Agenda Committee deferred making a decision about whether to add this issue to the EITF agenda.

d. *The Effect of a Sale of Receivables with Recourse under FASB Statement No. 140,* Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, *on the Determination of Profit Recognition for the Sale of Real Estate Pursuant to FASB Statement No. 66,* Accounting for Sales of Real Estate. The Agenda Committee did not add this issue to the EITF agenda but recommended that the Board consider issuing an FASB Staff Position to address this issue.

e. *Determining the Attribution of Incentive Compensation to Interim Financial Statements.* The Agenda Committee did not add this issue to the EITF agenda.

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

a. EITF Issue No. 06-8, "Applicability of the Assessment of a Buyer's Continuing Investment under FASB Statement No. 66, *Accounting for Sales of Real Estate*, for Sales of Condominiums" (Comment Letters Nos. 1 and 2 on the draft abstract)

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

- January 2007 EITF Meeting. The Task Force Chairman announced that the January 18, 2007 EITF meeting has been cancelled.

- March 2007 EITF Meeting. An FASB staff member asked Task Force members to anticipate a day-and-a-half EITF meeting to be held on March 14–15, 2007.

- The Task Force Chairman announced that Mr. Jay D. Hanson, McGladrey & Pullen, LLP, had joined the Task Force in place of Mr. Leland E. Graul, BDO Seidman, LLP, who is relinquishing his membership on the EITF. The Task Force Chairman thanked Mr. Graul for his service.

- An FASB staff member announced that any tentative conclusions reached by the Task Force at this meeting will be considered by the Board for ratification at the Board meeting on November 29, 2006, and then exposed for public comment. Any tentative conclusions reached at a prior meeting and affirmed as a consensus at this meeting also will be considered by the Board for ratification at the November 29, 2006 Board meeting.

- The SEC Observer announced that an amendment to *EITF Abstracts*, Topic No. D-36, "Selection of Discount Rates Used for Measuring Defined Benefit Pension Obligations and Obligations of Postretirement Benefit Plans Other Than Pensions," was made to conform with FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. Refer to Revised SEC Staff Announcement section elsewhere in these minutes.

REVISED SEC STAFF ANNOUNCEMENT

Topic: *EITF Abstracts*, Topic No. D-36, "Selection of Discount Rates Used for Measuring Defined Benefit Pension Obligations and Obligations of Postretirement Benefit Plans Other Than Pensions"

Date Discussed: November 16, 2006

The SEC staff announced that the following amendments to Topic D-36 were made to conform with FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (additions are underscored and deletions are ~~struck through~~).

Topic No. D-36

Topic: Selection of Discount Rates Used for Measuring Defined Benefit Pension Obligations and Obligations of Postretirement Benefit Plans Other Than Pensions

Dates Discussed: September 23, 1993; November 16, 2006

The SEC Observer made the following announcement of the SEC staff's position on the selection of discount rates used for purposes of measuring defined benefit pension obligations under FASB Statement No. 87, *Employers' Accounting for Pensions*, and obligations of postretirement benefit plans other than pensions under FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*.

The SEC staff recently questioned a registrant about that registrant's selection of discount rates for purposes of measuring its defined benefit pension obligation under Statement 87. ~~The staff believes that the guidance that is provided in p~~Paragraph ~~186~~44A of Statement ~~106~~87 (as amended by FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*), ~~for selecting discount rates to measure the postretirement benefit obligation also is appropriate~~provides guidance for ~~measuring the pension benefit obligation~~selecting discount rates to measure defined benefit pension obligations.[1] That paragraph states:

> Pursuant to paragraph 44, an employer may look to rates of return on high-quality fixed-income investments in determining assumed discount rates. The objective of selecting assumed

[1] Paragraph 31A of Statement 106 (as amended by Statement 158) provides similar guidance for selecting discount rates to measure postretirement benefit obligations.

> discount rates is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the ~~accumulated~~pension benefits when due. Notionally, that single amount, the ~~accumulated postretirement~~projected benefit obligation, would equal the current market value of a portfolio of high-quality zero coupon bonds whose maturity dates and amounts would be the same as the timing and amount of the expected future benefit payments. Because cash inflows would equal cash outflows in timing and amount, there would be no reinvestment risk in the yields to maturity of the portfolio. However, in other than a zero coupon portfolio, such as a portfolio of long-term debt instruments that pay semiannual interest payments or whose maturities do not extend far enough into the future to meet expected benefit payments, the assumed discount rates (the yield to maturity) need to incorporate expected reinvestment rates available in the future. Those rates ~~should~~shall be extrapolated from the existing yield curve at the measurement date. The determination of the assumed discount rate is separate from the determination of the expected rate of return on plan assets whenever the actual portfolio differs from the hypothetical portfolio above. Assumed discount rates ~~should~~shall be reevaluated at each measurement date. If the general level of interest rates rises or declines, the assumed discount rates ~~should~~shall change in a similar manner.

Interest rates have been declining and are at their lowest levels in more than a decade. At each measurement date, the SEC staff expects registrants to use discount rates to measure obligations for pension benefits and postretirement benefits other than pensions that reflect the then current level of interest rates. The staff suggests that fixed-income debt securities that receive one of the two highest ratings given by a recognized ratings agency be considered high quality (for example, a fixed-income security that receives a rating of Aa or higher from Moody's Investors Service, Inc.).

Issue No. 06-6

Title: Debtor's Accounting for a Modification (or Exchange) of Convertible Debt Instruments

Dates Discussed: June 15, 2006; September 7, 2006; November 16, 2006

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

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

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

EITF Issue No. 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments"

EITF Issue No. 05-1, "Accounting for the Conversion of an Instrument That Became Convertible upon the Issuer's Exercise of a Call Option"

EITF Issue No. 05-7, "Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues"

Introduction

1. Issue 05-7 addresses (a) whether the change in the fair value of an embedded conversion option that results from a modification of a convertible debt instrument should be included in the analysis of whether there has been a substantial change in the terms of a debt instrument to determine if a debt extinguishment has occurred pursuant to Issue 96-19 and (b) how an issuer should account for modifications that do not result in a debt extinguishment pursuant to Issue 96-19. At the September 15, 2005 EITF meeting, the Task Force reached the following consensus on Issue 05-7:

Issue 1— An entity should include, upon the modification of a convertible debt instrument, the change in fair value of the related embedded conversion option as a current period cash flow in the analysis to determine whether a debt instrument has been extinguished pursuant to Issue 96-19.

Issue 2— The modification of a convertible debt instrument should affect subsequent recognition of interest expense for the associated debt instrument for changes in the fair value of the embedded conversion option.

Issue 3— The issuer should not recognize a beneficial conversion feature or reassess an existing beneficial conversion feature upon modification of a convertible debt instrument.

2. At the March 16, 2006 EITF meeting, the Task Force agreed to clarify the scope of Issues 05-7 and 96-19 by adding a paragraph to the abstract of each Issue that clarifies 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 agreed that the scope of Issue 05-7 does not include the modification of debt instruments that either adds or eliminates 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.

3. Subsequent to the consensus in Issue 05-7, a number of practice issues were raised that were not specifically discussed by the Task Force in its original deliberations of that Issue. As a result, the Task Force was asked to consider the redeliberation of Issue 05-7.

Issues

4. The issues are:

Issue 1— How a modification of a debt instrument (or an exchange of debt instruments) that affects the terms of an embedded conversion option should be considered in the issuer's analysis of whether debt extinguishment accounting should be applied

Issue 2— Accounting for a modification of a debt instrument (or an exchange of debt instruments) that affects the terms of an embedded conversion option when extinguishment accounting is not applied.

Scope

5. This Issue applies to modifications and exchanges of debt instruments that (a) either add or eliminate an embedded conversion option or (b) affect the fair value of an existing embedded conversion option. The scope of this Issue does not address modifications or exchanges of debt instruments in circumstances in which the embedded conversion option is separately accounted for as a derivative under Statement 133 prior to the modification, subsequent to the modification, or both prior to and subsequent to the modification.

Prior EITF Discussion

6. The original issues brought to the Task Force at the June 15, 2006 EITF meeting were as follows:

Issue 1— Whether the modification of a convertible debt instrument that changes the fair value of an embedded conversion option affects subsequent recognition of interest expense for the associated debt instrument when the modification does not result in a debt extinguishment pursuant to Issue 96-19

Issue 2— Whether an issuer should recognize a beneficial conversion feature or reassess an existing beneficial conversion feature upon modification if the debt does not result in an extinguishment under Issue 96-19, the conversion option is in-the-money, and the intrinsic value of the conversion option has increased.

7. At the June 15, 2006 EITF meeting, the Task Force discussed this Issue but was not asked to reach any conclusions. Some Task Force members reaffirmed their support for the original consensus on Issue 05-7, while others acknowledged their concern that the current application of

Issue 2 of Issue 05-7 allows entities to reduce the value of (or eliminate) a conversion option by providing the debt holder with equal consideration resulting in no subsequent impact on interest expense (since the change in the fair value of the embedded conversion option offsets the change in the present value of the cash flows under the terms of the new debt instrument).

8. Task Force members also discussed the consensus on Issue 1 of Issue 05-7. The Task Force observed that under the current consensus, when a change in the fair value of a conversion option is given in exchange for other consideration (including consideration in the form of changes to the debt instrument), few extinguishments result because the change in the fair value of the conversion option is offset by other changes in cash flows and, accordingly, a substantial modification does not occur under Issue 96-19. Some Task Force members believe that when a debt instrument is modified to add (or eliminate) a conversion option, contrary to the existing guidance in Issue 96-19 (as amended by Issue 05-7), a substantial modification occurs, which should result in extinguishment accounting for the existing debt instrument.

9. The Task Force discussed alternative methods for determining whether a substantial modification has occurred including (a) assessing each change individually, (b) assessing the changes in the equity and non-equity components separately, or (c) assessing the combined total change in value.

10. The Task Force requested that the FASB staff further explore alternative methods of determining whether a substantial modification has occurred under Issue 96-19 (as amended by Issue 05-7). The Task Force also agreed that the existing consensus in Issue 05-7 remains in effect until additional guidance is provided.

11. At the September 7, 2006 EITF meeting, the Task Force reached a tentative conclusion on Issue 1 that the change in the fair value of an embedded conversion option resulting from an exchange of debt instruments or a modification in the terms of an existing debt instrument should not be included in the cash flow test of whether the terms of the new debt instrument are *substantially different* from the terms of the original debt instrument under Issue 96-19. However, a separate analysis must be performed if the cash flow test under Issue 96-19 does not result in a conclusion that a substantial modification or exchange has occurred. Under that separate analysis, a substantial modification or exchange has occurred and the issuer should apply extinguishment accounting if the change in the fair value of the embedded conversion option (calculated as the difference between the fair value of the embedded conversion option immediately before and after the modification or exchange) is at least 10 percent of the carrying amount of the original debt instrument immediately prior to the modification or exchange. Additionally, a modification or an exchange of debt instruments that adds a substantive conversion option or eliminates a conversion option that was substantive at the date of the modification or exchange would always be considered *substantial* and debt extinguishment accounting would be required in those circumstances. The Task Force decided that for purposes of evaluating whether an embedded conversion option was substantive on the date it was added to or eliminated from a debt instrument, the factors described in paragraphs 7–9 of Issue 05-1 should be considered.

12. In reaching its tentative conclusion, the Task Force observed that a modification or an exchange of debt instruments may change the fair value of an embedded conversion option with a substantially offsetting change in the present value of the instrument's cash flows. In those circumstances, extinguishment accounting might not result if the change in the fair value of an embedded conversion option were treated as a current period cash flow under Issue 96-19, even though the overall changes to the terms of the instrument may appear to embody a substantial modification because (a) the revised cash flows of the instrument are significantly different from the original cash flows as a result of the modification and/or (b) the overall risk profile of the instrument has been significantly altered due to the shift in value between its debt and equity components. Accordingly, the Task Force concluded that the two-step analysis required by this tentative conclusion is appropriate when evaluating whether a modification or an exchange that affects the terms of an embedded conversion option should be accounted for as a debt extinguishment.

13. The Task Force also reached a tentative conclusion on Issue 2 that when a convertible debt instrument is modified or exchanged in a transaction that is not accounted for as an extinguishment, an *increase* in the fair value of the embedded conversion option (calculated as the difference between the fair value of the embedded conversion option immediately before and after the modification or exchange) should reduce the carrying amount of the debt instrument (increasing a debt discount or reducing a debt premium) with a corresponding increase in additional paid-in capital. However, a *decrease* in the fair value of an embedded conversion option resulting from a modification or an exchange should not be recognized. The issuer should not recognize a beneficial conversion feature or reassess an existing beneficial conversion feature upon a modification or exchange of convertible debt instruments in a transaction that is not accounted for as an extinguishment. In reaching its tentative conclusion that an increase in the fair value of an embedded conversion option should reduce the carrying amount of the debt with a corresponding increase in additional paid-in capital, the Task Force observed that this treatment is not inconsistent with Opinion 14 because Opinion 14 only pertains to the accounting at issuance for convertible debt instruments and does not address the accounting for modifications to convertible debt instruments.

14. If these tentative conclusions are affirmed as a consensus at a future EITF meeting and ratified by the Board, the guidance in Issue 05-7 would be nullified and Issue 96-19 would be amended to (a) eliminate the guidance that was previously added as a result of Issue 05-7 and (b) include the guidance in this Issue in determining whether an entity has a substantial modification. However, the existing consensus in Issue 05-7 continues to apply until such time as it is superseded by a consensus on this Issue at a future meeting that is subsequently ratified by the Board.

Current EITF Discussion

15. At the November 16, 2006 EITF meeting, the Task Force affirmed as a consensus the tentative conclusions reached at the September 7, 2006 EITF meeting. The draft abstract included as Appendix 06-6A reflects the consensuses reached by the Task Force in this Issue and includes changes made to the draft abstract as a result of the Task Force discussion. Appendix 06-6B reflects the effect of the consensuses reached in this Issue on Issue 96-19 (in order to replace the guidance from Issue 05-7 with the guidance from this Issue). (Changes to both draft

abstracts are shown in their respective appendixes; additions are underscored and deletions are ~~struck through~~.) The guidance in Issue 05-7 is superseded by this consensus.

Transition

16. The consensus in this Issue should be applied to modifications or exchanges of debt instruments occurring in interim or annual reporting periods beginning after Board ratification (November 29, 2006). Earlier application of this Issue is permitted for modifications or exchanges of debt instruments in periods for which financial statements have not yet been issued. Retrospective application to previously issued financial statements is not permitted.

Board Ratification

17. At the November 29, 2006 Board meeting, the Board ratified the consensus reached by the Task Force in this Issue.

Status

18. No further EITF discussion is planned.

Appendix 06-6A

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

Issue No. 06-6

Title: Debtor's Accounting for a Modification (or Exchange) of Convertible Debt Instruments

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

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

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

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

EITF Issue No. 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments"

EITF Issue No. 05-1, "Accounting for the Conversion of an Instrument That Became Convertible upon the Issuer's Exercise of a Call Option"

EITF Issue No. 05-7, "Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues"

ISSUE

1. Issue 05-7 addresses (a) whether a change in the fair value of an embedded conversion option that results from a modification of a convertible debt instrument should be included in the analysis of whether there has been a substantial change in the terms of a debt instrument to determine if a debt extinguishment has occurred pursuant to Issue 96-19, and (b) how an issuer should account for modifications that do not result in a debt extinguishment pursuant to Issue 96-19. At the September 15, 2005 EITF meeting, the Task Force reached the following consensus on Issue 05-7:

Issue 1— An entity should include, upon the modification of a convertible debt instrument, the change in fair value of the related embedded conversion option as a current-period cash flow in the analysis to determine whether a debt instrument has been extinguished pursuant to Issue 96-19

Issue 2— The modification of a convertible debt instrument should affect subsequent recognition of interest expense for the associated debt instrument for changes in the fair value of the embedded conversion option

[*] **This draft abstract was prepared to facilitate discussion of the guidance on which the Task Force reached its consensus and contains all substantive aspects of the consensus. The final abstract, which will be included in the next update for *EITF Abstracts*, may contain nonsubstantive editorial revisions.**

Issue 3— The issuer should not recognize a beneficial conversion feature or reassess an existing beneficial conversion feature upon modification of a convertible debt instrument.

2. At the March 16, 2006 EITF meeting, the Task Force agreed to clarify the scopes of Issues 05-7 and 96-19 by adding a paragraph to the abstract of each Issue that clarifies 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 adds or eliminates 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.

3. Subsequent to the consensus in Issue 05-7, a number of practice issues were raised that were not specifically discussed by the Task Force in its original deliberations of that Issue. As a result, the Task Force was asked to consider the redeliberation of Issue 05-7.

4. The issues are:

Issue 1— How a modification of a debt instrument (or an exchange of debt instruments) that affects the terms of an embedded conversion option should be considered in the issuer's analysis of whether debt extinguishment accounting should be applied

Issue 2— Accounting for a modification of a debt instrument (or an exchange of debt instruments) that affects the terms of an embedded conversion option when extinguishment accounting is not applied.

Scope

5. This Issue applies to modifications and exchanges of debt instruments that (a) either add or eliminate an embedded conversion option or (b) affect the fair value of an existing embedded conversion option. The scope of this Issue does not address modifications or exchanges of debt instruments in circumstances in which the embedded conversion option is separately accounted for as a derivative under Statement 133 prior to the modification, subsequent to the modification, or both prior and subsequent to the modification.

EITF DISCUSSION

6. The Task Force reached a ~~[~~consensus~~]~~ on Issue 1 that the change in the fair value of an embedded conversion option resulting from an exchange of debt instruments or a modification in the terms of an existing debt instrument should not be included in the cash flow test of whether the terms of the new debt instrument are *substantially different* from the terms of the original debt instrument under Issue 96-19. However, a separate analysis must be performed if the cash flow test under Issue 96-19 does not result in a conclusion that a substantial modification or ~~an~~ exchange has occurred. Under that separate analysis, a substantial modification or ~~an~~ exchange has occurred~~,~~ and the issuer should apply extinguishment accounting if the change in the fair value of the embedded conversion option (calculated as the difference between the fair value of the embedded conversion option immediately before and after the modification or exchange) is at least 10 percent of the carrying <u>amount</u>~~value~~ of the original debt instrument immediately prior

to the modification or exchange. Additionally, a modification or an exchange of debt instruments that adds a substantive conversion option or eliminates a conversion option that was substantive at the date of the modification or exchange would always be considered *substantial*, and debt extinguishment accounting would be required in those circumstances. The Task Force decided that for purposes of evaluating whether an embedded conversion option was substantive on the date it was added to or eliminated from a debt instrument, the factors described in paragraphs 7–9 of Issue 05-1 should be considered.

7. The Task Force reached a ~~[~~consensus~~]~~ on Issue 2 that when a convertible debt instrument is modified or exchanged in a transaction that is not accounted for as an extinguishment, an *increase* in the fair value of the embedded conversion option (calculated as the difference between the fair value of the embedded conversion option immediately before and after the modification or exchange) should reduce the carrying amount of the debt instrument (increasing a debt discount or reducing a debt premium) with a corresponding increase in additional paid-in capital. However, a *decrease* in the fair value of an embedded conversion option resulting from a modification or an exchange should not be recognized. The issuer should not recognize a beneficial conversion feature or reassess an existing beneficial conversion feature upon a modification or exchange of convertible debt instruments in a transaction that is not accounted for as an extinguishment.

8. The guidance in Issue 05-7 is ~~[~~superseded~~]~~ by the consensus in this Issue. The Task Force agreed to amend Issue 96-19 to replace the guidance from Issue 05-7 with the guidance from this Issue.

Transition

9. The ~~[~~consensus~~]~~ in this Issue should be applied to modifications or exchanges of debt instruments occurring~~beginning~~ in ~~the first~~ interim or annual reporting periods beginning after Board ratification (November 29~~XX~~, 2006). Earlier application of this Issue is permitted for modifications or exchanges of debt instruments in periods for which financial statements have not yet been issued. Retrospective application to previously issued financial statements is not permitted.

Board Ratification

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

STATUS

11. No further EITF discussion is planned.

Appendix 06-6B

EITF ABSTRACTS (DRAFT*)

Issue No. 96-19

Title: Debtor's Accounting for a Modification or Exchange of Debt Instruments

Dates Discussed: September 18–19, 1996; November 14, 1996; January 23, 1997; March 13, 1997; May 21–22, 1997; July 23–24, 1997; July 23, 1998; September 15, 2005, March 16, 2006; September 7, 2006; ~~[~~November ~~15–2~~16, 2006~~]~~

References: FASB Statement No. 4, *Reporting Gains and Losses from Extinguishment of Debt*

FASB Statement No 76, *Extinguishment of Debt*

FASB Statement No. 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*

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

FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*

FASB Statement No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections*

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

APB Opinion No. 30, *Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*

SEC Staff Accounting Bulletin No. 94, *Recognition of a Gain or Loss on Early Extinguishment of Debt*

ISSUE

Issue No. 86-18, "Debtor's Accounting for a Modification of Debt Terms," addresses circumstances under which existing debt should be considered extinguished, resulting in recognition by the debtor of an extraordinary gain or loss. [Note: See STATUS section.] In that Issue, the Task Force reached a consensus that an exchange of a new noncallable debt instrument for an older callable debt instrument should be accounted for as an extinguishment by the debtor. Many Task Force members agreed that substantive modifications of debt (that is, modifications to principal, interest rate, maturity, or call provisions) should be accounted for as the

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* **This draft abstract was prepared to facilitate discussion of the guidance on which the Task Force reached its consensus and contains all substantive aspects of the consensus. The final abstract, which will be included in the next update for *EITF Abstracts,* may contain nonsubstantive editorial revisions.**

extinguishment of that debt and the creation of new debt, although no consensus was reached on that issue. Other Task Force members said that extinguishment accounting should be applied only to those debt instruments meeting the conditions for extinguishment under Statement 76.

Statement 125, which superseded Statement 76 on January 1, 1997, limits derecognition of a liability to extinguishments. It limits extinguishments to situations in which the debtor pays the creditor and is relieved of its obligation or is legally released as the primary obligor either judicially or by the creditor.

The issues are:

1. How a debtor should account for an exchange of debt instruments with substantially different terms
2. How a debtor should account for a substantial modification in the terms of an existing debt agreement (other than a troubled debt restructuring)
3. If a gain or loss is recognized from an exchange or modification, whether the gain or loss should be classified as extraordinary.

EITF DISCUSSION

The Task Force reached a consensus that an exchange of debt instruments with substantially different terms is a debt extinguishment and should be accounted for in accordance with paragraph 16 of Statement 125. The Task Force observed that a debtor could achieve the same economic effect by making a substantial modification of terms of an existing debt instrument. Accordingly, the Task Force reached a consensus that a substantial modification of terms should be accounted for like, and reported in the same manner as, an extinguishment.

The Task Force also reached the following consensuses regarding (1) when an exchange or modification is considered *substantial,* (2) how to account for fees paid or received by a debtor and costs incurred by a debtor with third parties as part of an exchange or modification, and (3) the impact of the consensuses reached in this Issue on other related EITF Issues.

From the debtor's perspective, an exchange of debt instruments between or a modification of a debt instrument by a debtor and a creditor in a nontroubled debt situation is deemed to have been accomplished with debt instruments that are *substantially different* if any of the following three conditions are met:

1. ~~t~~The present value of the cash flows ~~(including changes in the fair value of an embedded conversion option[1] upon modification of a convertible debt instrument)~~ under the terms of the new debt instrument is at least *10 percent* different from the present value of the remaining cash flows under the terms of the original instrument.

   For purposes of determining the change in the present value of the cash flows, the Task Force observed that the c~~C~~ash flows can be affected by changes in principal amounts,

~~[1] The change in the fair value of an embedded conversion option is calculated as the difference between the fair value of the embedded conversion option immediately before and after the modification. [Note: See STATUS section.]~~

interest rates, or maturity. They can also be affected by fees exchanged between the debtor and creditor to effect changes in:

- Recourse or nonrecourse features
- Priority of the obligation
- Collateralized (including changes in collateral) or noncollateralized features
- Debt covenants and/or waivers
- The guarantor (or elimination of the guarantor)
- Option features.

If the terms of a debt instrument are changed or modified in any of the ways described above and the cash flow effect on a present value basis is less than 10 percent, the debt instruments are *not* considered to be *substantially different*, except as ~~discussed~~ set forth ~~in~~ by the following ~~paragraphs~~two conditions.

2. A modification or an exchange that affects the terms of an embedded conversion option, from which ~~where~~ the change in the fair value of the embedded conversion option (calculated as the difference between the fair value of the embedded conversion option immediately before and after the modification or exchange) is at least 10 percent of the carrying amount~~value~~ of the original debt instrument immediately prior to the modification or exchange.

3. A modification or an exchange of debt instruments that adds a substantive conversion option or eliminates a conversion option that was substantive at the date of the modification or exchange.[1]

With respect to the second and third conditions, this guidance does not address modifications or exchanges of debt instruments in circumstances in which the embedded conversion option is separately accounted for as a derivative under Statement 133 prior to the modification, subsequent to the modification, or both prior and subsequent to the modification. [Note: See STATUS section.]

The following guidance is to be used to calculate the present value of the cash flows for purposes of applying the 10 percent cash flow test.

1. The cash flows of the new debt instrument include all cash flows specified by the terms of the new debt instrument plus any amounts paid by the debtor to the creditor less any amounts received by the debtor from the creditor as part of the exchange or modification.
2. If the original debt instrument and/or the new debt instrument has a floating interest rate, then the variable rate in effect at the date of the exchange or modification is to be used to calculate the cash flows of the variable-rate instrument.
3. If either the new debt instrument or the original debt instrument is callable or puttable, then separate cash flow analyses are to be performed assuming exercise and nonexercise of the

[1] For purposes of evaluating whether an embedded conversion option was substantive on the date it was added to or eliminated from a debt instrument, the factors described in paragraphs 7–9 of Issue No. 05-1 "Accounting for the Conversion of an Instrument That Became Convertible upon the Issuer's Exercise of a Call Option," should be considered.

call or put. The cash flow assumptions that generate the smaller change would be the basis for determining whether the 10 percent threshold is met.

4. If the debt instruments contain contingent payment terms or unusual interest rate terms, judgment should be used to determine the appropriate cash flows.

~~5. If the debt instrument contains an embedded conversion option, the change in the fair value of the embedded conversion option that results from a modification of the debt instrument, should be included in a manner that is similar to the manner in which a current period cash flow would be included. [Note: See STATUS section.]~~

5~~6~~. The discount rate to be used to calculate the present value of the cash flows is the effective interest rate, for accounting purposes, of the original debt instrument.

6~~7.~~ If within a year of the current transaction the debt has been exchanged or modified without being deemed to be substantially different, then the debt terms that existed a year ago should be used to determine whether the current exchange or modification is substantially different.

If it is determined that the original and new debt instruments are *substantially different*, then the calculation of the cash flows related to the new debt instrument at the effective interest rate of the original debt instrument is *not* used to determine the initial amount recorded for the new debt instrument or to determine the debt extinguishment gain or loss to be recognized. The new debt instrument should be initially recorded at fair value, and that amount should be used to determine the debt extinguishment gain or loss to be recognized and the effective rate of the new instrument.

If it is determined that the original and new debt instruments are *not* substantially different, then a new effective interest rate is to be determined based on the carrying amount of the original debt instrument, adjusted for an increase (but not a decrease) in the fair value of an embedded conversion option (calculated as the difference between the fair value of the embedded conversion option immediately before and after the modification or exchange) resulting from the modification, and the revised cash flows~~ including any change in the fair value of an embedded conversion option~~.

Fees paid by the debtor to the creditor or received by the debtor from the creditor (fees may be received by the debtor from the creditor to cancel a call option held by the debtor or to extend a no-call period) as part of the exchange or modification are to be accounted for as follows:

- If the exchange or modification is to be accounted for in the same manner as a debt extinguishment [Note: See STATUS section.] and the new debt instrument is initially recorded at fair value, then the fees paid or received are to be associated with the extinguishment of the old debt instrument and included in determining the debt extinguishment gain or loss to be recognized.

- If the exchange or modification is not to be accounted for in the same manner as a debt extinguishment, then the fees are to be associated with the replacement or modified debt instrument and, along with any existing unamortized premium or discount, amortized as an adjustment of interest expense over the remaining term of the replacement or modified debt instrument using the interest method.

Costs incurred with third parties directly related to the exchange or modification (such as legal fees) are to be accounted for as follows:

- If the exchange or modification is to be accounted for in the same manner as a debt extinguishment [Note: See STATUS section.] and the new debt instrument is initially recorded at fair value, then the costs are to be associated with the new debt instrument and amortized over the term of the new debt instrument using the interest method in a manner similar to debt issue costs.

- If the exchange or modification is not to be accounted for in the same manner as a debt extinguishment, then the costs should be expensed as incurred.

The consensus in Issue No. 95-15, "Recognition of Gain or Loss When a Binding Contract Requires a Debt Extinguishment to Occur at a Future Date for a Specified Amount," is superseded by the consensus in this Issue. The transaction described in Issue 95-15 deals with when a debtor enters into a binding contract with a holder of its debt obligation to redeem the debt security at a future date for a specified amount greater than (or less than) the debtor's carrying amount of the debt for financial reporting purposes. The future date of the exchange specified in the contract will occur within one year of the date that the contract becomes binding to the parties. The debtor's accounting for this transaction is to be accounted for based on the consensus in this Issue.

The guidance in Issue 86-18 for the transaction described below is not affected by the consensus reached in this Issue. In the context of its deliberations on Issue 86-18, the Task Force discussed a specific transaction in which a borrower, instead of acquiring debt securities directly, loans funds to a third party, who in turn acquires the borrower's original debt securities. The borrower and third party agree that they may settle their respective receivables and obligations by right of setoff as payments become due, contingent upon the third party's continued retention of the borrower's original debt. The Task Force reached a consensus in Issue 86-18 that the borrower should not account for the original debt securities as extinguished and that those securities should not be offset against the receivable from the third party in the borrower's financial statements.

Implementation Guidelines

The Task Force reached a consensus that:

1. The exchange of cash by the debtor or the debtor's agent to acquire or settle debt is an extinguishment of debt under paragraph 16 of Statement 125. Therefore, such transactions involving the exchange of cash between a debtor and a creditor or creditors are not covered by the scope of this Issue. However, transactions involving contemporaneous exchanges of cash between the same debtor and creditor in connection with the issuance of a new debt obligation and satisfaction of an existing debt obligation by the debtor would only be accounted for as debt extinguishments if the debt instruments have substantially different terms, as defined in this Issue.

2. In transactions involving a third-party intermediary acting as agent on behalf of a debtor, the actions of the intermediary should be viewed as those of the debtor in order to determine whether there has been an exchange of debt instruments or a modification of terms between

a debtor and a creditor. Stated another way, when a third-party intermediary acts as agent, the analysis should "look through" the intermediary.

3. In transactions involving a third-party intermediary acting as principal, the intermediary should be viewed as a third-party creditor similar to any other creditor in order to determine whether there has been an exchange of debt instruments or a modification of terms between a debtor and a creditor. Stated another way, when a third-party intermediary acts as principal, the analysis should not "look through" the intermediary.

4. Transactions among debt holders do not result in a modification of the original debt's terms or an exchange of debt instruments between the debtor and the debt holders and do not impact the accounting by the debtor.

5. Transactions between a debtor and a third-party creditor should be analyzed based on the guidance in paragraph 16 of Statement 125 and the consensus in this Issue to determine whether gain or loss recognition is appropriate. Transactions entered into between a debtor or a debtor's agent and a third party that is not the creditor are not included in the scope of this Issue.

The Task Force noted that application of those guidelines may require determination of whether a third-party intermediary is an agent or a principal and that consideration of legal definitions may be helpful in making that determination. The Task Force noted that, generally, an agent acts for and on behalf of another party. Therefore, a third-party intermediary is an agent of a debtor if it acts on behalf of the debtor. In addition, the Task Force noted that an evaluation of the facts and circumstances surrounding the involvement of the third-party intermediary should be performed. The Task Force observed that the following indicators should be considered in that evaluation:

1. If the intermediary's role is restricted to placing or reacquiring debt for the debtor without placing its own funds at risk, that would indicate that the intermediary is an agent. For example, that may be the case if the intermediary's own funds are committed and those funds are not truly at risk because the intermediary is made whole by the debtor (and therefore is indemnified against loss by the debtor). If the intermediary places and reacquires debt for the debtor by committing its funds and is subject to the risk of loss of those funds, that would indicate that the intermediary is acting as principal.

2. In an arrangement where an intermediary places notes issued by the debtor, if the placement is done under a best-efforts agreement, that would indicate that the intermediary is acting as agent. Under a best-efforts agreement, an agent agrees to buy only those securities that it is able to sell to others; if the agent is unable to remarket the debt, the issuer is obligated to pay off the debt. The intermediary may be acting as principal if the placement is done on a firmly committed basis, which requires the intermediary to hold any debt that it is unable to sell to others.

3. If the debtor directs the intermediary and the intermediary cannot independently initiate an exchange or modification of the debt instrument, that would indicate that the intermediary is

an agent. The intermediary may be a principal if it acquires debt from or exchanges debt with another debt holder in the market and is subject to loss as a result of the transaction.

4. If the only compensation derived by an intermediary from its arrangement with the debtor is limited to a preestablished fee, that would indicate that the intermediary is an agent. If the intermediary derives gains based on the value of the security issued by the debtor, that would indicate that the intermediary is a principal.

The Task Force reached a consensus that transactions involving the modification or exchange of debt instruments can only result in gain or loss recognition by the debtor if the conditions for extinguishment of debt described in paragraph 16 of Statement 125 are satisfied or if the consensus in this Issue requires that accounting. Accordingly, the guidance in Issue No. 87-20, "Offsetting Certificates of Deposit against High-Coupon Debt," related to loss recognition is superseded by the consensus in this Issue. The general principles outlined above would apply to the transaction described in Issue 87-20.

The examples in Exhibit 96-19A illustrate the application of the above implementation guidelines.

STATUS

Statement 140 was issued in September 2000 and superseded Statement 125. Statement 140 does not change the guidance dealing with accounting for extinguishments of liabilities.

Statement 145, issued in April 2002, supersedes Statement 4. Statement 4 required that all gains and losses from extinguishment of debt be classified as extraordinary items. Statement 145 removes the extraordinary item classification requirement but does not preclude gains and losses from extinguishment of debt that meet the criteria in Opinion 30 from being classified as extraordinary items.

~~Issue No. 05-7, "Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues," which was discussed at the September 15, 2005 meeting, amends this Issue to include the change in the fair value of an embedded conversion option resulting from the modification of a convertible debt instrument in the analysis of whether there has been a substantial change in the terms of a convertible debt instrument to determine if a debt extinguishment has occurred. In addition, Issue 05-7 requires the change in the fair value of the embedded conversion option that results from a modification of the convertible debt instrument (that does not result in an extinguishment), to be accounted for as an additional debt discount or premium (similar to other fees paid to creditors) resulting in an effect on the subsequent recognition of interest expense for the associated debt instrument. At its meeting on September 28, 2005, the Board ratified the consensus modifications reached by the Task Force in this Issue.~~

~~At the March 16, 2006 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.~~

Issue No. 06-6, "Debtor's Accounting for a Modification (or Exchange) of Convertible Debt Instruments," which was discussed at the September 7, 2006, ~~[~~and November 16, 2006~~]~~ meetings, supersedes Issue No. 05-7, "Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues," and amends the guidance in this Issue to clarify that the change in the fair value of an embedded conversion option resulting from a modification in the terms of an existing debt instrument or an exchange of debt instruments should not be included in the cash flow test of whether the terms of the new debt instrument are substantially different from the terms of the original debt instrument under Issue 96-19. However, a separate analysis must be performed if the cash flow test under Issue 96-19 does not result in a conclusion that a substantial modification or ~~an~~ exchange has occurred. Under that separate analysis, a substantial modification or ~~an~~ exchange has occurred, and the issuer should apply extinguishment accounting if the change in the fair value of the embedded conversion option (calculated as the difference between the fair value of the embedded conversion option immediately before and after the modification or exchange) is at least 10 percent of the carrying amount~~value~~ of the original debt instrument immediately prior to the modification or exchange. Additionally, a modification or an exchange of debt instruments that adds a substantive conversion option or eliminates a conversion option that was substantive at the date of the modification or exchange would always be considered substantial, and debt extinguishment accounting would be required in those circumstances. In addition, Issue 06-6 requires that when a convertible debt instrument is modified or exchanged in a transaction that is not accounted for as an extinguishment, an increase in the fair value of the embedded conversion option (calculated as the difference between the fair value of the embedded conversion option immediately before and after the modification or exchange) should reduce the carrying amount of the debt instrument (increasing a debt discount or reducing a debt premium) with a corresponding increase in additional paid-in capital. However, a decrease in the fair value of an embedded conversion option resulting from a modification or an exchange should not be recognized. The issuer should not recognize a beneficial conversion feature or reassess an existing beneficial conversion feature upon a modification or exchange of convertible debt instruments in a transaction that is not accounted for as an extinguishment. At its meeting on ~~[~~November 29~~XX~~, 2006~~]~~, the Board ratified this amendment.

No further EITF discussion is planned.

Issue No. 06-7

Title: Issuer's Accounting for a Previously Bifurcated Conversion Option in a Convertible Debt Instrument When the Conversion Option No Longer Meets the Bifurcation Criteria in FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*

Dates Discussed: September 7, 2006; November 16, 2006

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

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

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

Statement 133 Implementation Issue No. K5, "Miscellaneous: Transition Provisions for Applying the Guidance in Statement 133 Implementation Issues"

EITF Issue No. 90-19, "Convertible Bonds with Issuer Option to Settle for Cash upon Conversion"

EITF Issue No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios"

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

EITF Issue No. 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments"

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 Issue No. 90-19)"

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

Introduction

1. An entity may issue convertible debt with an embedded conversion option that is required to be bifurcated under Statement 133 if all of the conditions of paragraph 12 in that Statement are met. An embedded conversion option that initially requires separate accounting as a derivative under Statement 133 may subsequently no longer meet the conditions that would require separate accounting as a derivative. A reassessment of whether an embedded conversion option must be bifurcated under Statement 133 is required each reporting period. When an entity is no longer required to bifurcate a conversion option pursuant to Statement 133, there are differing views on how an entity should recognize that change.

Issue

2. The issue is how an issuer should account for a previously bifurcated conversion option in a convertible debt instrument if that conversion option no longer meets the bifurcation criteria in Statement 133.

Prior EITF Discussion

3. At the September 7, 2006 EITF meeting, the Task Force reached a tentative conclusion that when an embedded conversion option in a convertible debt instrument no longer meets the bifurcation criteria in Statement 133, an issuer should account for the previously bifurcated conversion option by reclassifying the carrying amount of the liability for the conversion option (that is, its fair value on the date of reclassification) to shareholders' equity. Any debt discount recognized when the conversion option was bifurcated from the convertible debt instrument should continue to be amortized.

4. The Task Force observed that when an embedded conversion option is no longer required to be bifurcated under Statement 133, an entity should continue to recognize the issuer's economic borrowing costs related to a convertible debt instrument by requiring continued recognition of the proportion of the borrowing costs related to the debt discount recorded at issuance. The Task Force discussed whether this tentative conclusion is inconsistent with Opinion 14 (which generally does not permit separate recognition of an embedded conversion option). The Task Force did not believe that the tentative conclusion in this Issue was inconsistent with Opinion 14 because the initial bifurcation was required pursuant to Statement 133. The Task Force believes that Opinion 14 only addresses the accounting at issuance for convertible debt instruments and does not address accounting for changes to convertible debt instruments subsequent to issuance. The Task Force also observed that the guidance in Implementation Issue K5 does not apply to this Issue since it is specifically intended to address situations in which an embedded derivative is not required to be accounted for separately under Statement 133 as a result of newly issued Statement 133 implementation guidance.

Current EITF Discussion

5. At the November 16, 2006 EITF meeting, the Task Force discussed the accounting recognition for the conversion or the extinguishment of an instrument subject to this Issue (an Issue 06-7 Instrument). For the conversion of an Issue 06-7 instrument, the Task Force reached a consensus that the issuer should recognize any unamortized discount remaining at the date of conversion immediately as interest expense. In reaching this conclusion, the Task Force observed that if the instrument being converted has the characteristics of "Instrument C" in Issue 90-19, the guidance for conversions of such instruments in Issue 03-7 should be applied, regardless of whether the embedded conversion option was previously reclassified to shareholder's equity pursuant to the guidance in this Issue. If a convertible debt instrument with a conversion option for which the carrying amount has previously been reclassified to shareholders' equity pursuant to the guidance in this Issue is extinguished for cash (or other assets) prior to its stated maturity date, the portion of the reacquisition price equal to the fair value of the conversion option at the date of the extinguishment should be allocated to equity and the remaining reacquisition price should be allocated to the extinguishment of the debt to determine the amount of gain or loss.

6. The Task Force also affirmed as a consensus the tentative conclusion reached at the September 7, 2006 meeting.

7. Appendix 06-7A reflects changes made to the draft abstract as a result of the Task Force discussion (additions are underscored and deletions are ~~struck through~~).

Disclosure

8. An issuer shall disclose the following information for the period in which an embedded conversion option previously accounted for as a derivative under Statement 133 no longer meets the bifurcation criteria under that standard:

a. A description of the principal changes causing the embedded conversion option to no longer require bifurcation under Statement 133; and
b. The amount of the liability for the conversion option reclassified to stockholders' equity.

Transition

9. The consensus in this Issue should be applied to previously bifurcated conversion options in convertible debt instruments that cease to meet the bifurcation criteria in Statement 133 in interim or annual periods beginning after December 15, 2006, regardless of whether the debt instrument was entered into prior or subsequent to the effective date of this Issue. Earlier application of this Issue is permitted in periods for which financial statements have not yet been issued. Retrospective application pursuant to Statement 154 to previously issued financial statements is permitted.

Board Ratification

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

Status

11. No further EITF discussion is planned.

Appendix 06-7A

***EITF ABSTRACTS* (DRAFT*)**

Issue No. 06-7

Title: Issuer's Accounting for a Previously Bifurcated Conversion Option in a Convertible Debt Instrument When the Conversion Option No Longer Meets the Bifurcation Criteria in FASB Statement No. 133

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

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

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

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

Statement 133 Implementation Issue No. K5, "Miscellaneous: Transition Provisions for Applying the Guidance in Statement 133 Implementation Issues"

EITF Issue No. 90-19, "Convertible Bonds with Issuer Option to Settle for Cash upon Conversion"

EITF Issue No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios"

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

EITF Issue No. 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments"

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 Issue No. 90-19)"

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

~~EITF Issue No. 05-7, "Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues"~~

*** This draft abstract was prepared to facilitate discussion of the guidance on which the Task Force reached its consensus and contains all substantive aspects of the consensus. The final abstract, which will be included in the next update for *EITF Abstracts*, may contain nonsubstantive editorial revisions.**

ISSUE

1. An entity may issue convertible debt with an embedded conversion option that is required to be bifurcated under Statement 133 if all of the conditions in paragraph 12 of that Statement are met. An embedded conversion option that initially requires separate accounting as a derivative under Statement 133 may subsequently no longer meet the conditions that would require separate accounting as a derivative. A reassessment of whether an embedded conversion option must be bifurcated under Statement 133 is required each reporting period. When an entity is no longer required to bifurcate a conversion option pursuant to Statement 133, there are differing views on how an entity should recognize that change.

2. The issue is how an issuer should account for a previously bifurcated conversion option in a convertible debt instrument if that conversion option no longer meets the bifurcation criteria in Statement 133.

EITF DISCUSSION

3. The Task Force reached a ~~[~~consensus~~]~~ that when an embedded conversion option in a convertible debt instrument no longer meets the bifurcation criteria in Statement 133, an issuer should account for the ~~a~~ previously bifurcated conversion option ~~in a convertible debt instrument if the embedded conversion option no longer meets the bifurcation criteria in Statement 133~~ by reclassifying the carrying ~~value~~ amount of the liability for the conversion option (that is, its fair value on the date of reclassification) to shareholders' equity. Any debt discount recognized when the conversion option was bifurcated from the convertible debt instrument should continue to be amortized.

4. The Task Force also reached a consensus that if a holder exercises a conversion option for which the carrying ~~value~~ amount has previously been reclassified to shareholders' equity pursuant to the guidance in this Issue, the issuer should recognize any unamortized discount remaining at the date of conversion immediately as interest expense. In reaching this conclusion, the Task Force observed that if the instrument being converted has the characteristics of "Instrument C" in Issue 90-19, the guidance for conversions of such instruments in Issue 03-7 should be applied, regardless of whether the embedded conversion option was previously reclassified to shareholder's equity pursuant to the guidance in this Issue. If a convertible debt instrument with a conversion option for which the carrying amount has previously been reclassified to shareholders' equity pursuant to the guidance in this Issue is extinguished for cash (or other assets) prior to its stated maturity date, the portion of the reacquisition price equal to the fair value of the conversion option at the date of the extinguishment should be allocated to equity and the remaining reacquisition price should be allocated to the extinguishment of the debt to determine the amount of gain or loss.

5. The Task Force discussed whether this consensus is inconsistent with Opinion 14 (which generally does not permit separate recognition of an embedded conversion option). The Task Force did not believe that the consensus on this Issue was inconsistent with Opinion 14 because the initial bifurcation was required pursuant to Statement 133. The Task Force believes that Opinion 14 only addresses the accounting at issuance for convertible debt instruments and does not address accounting for changes to convertible debt instruments subsequent to issuance. The

Task Force also observed that the guidance in ~~DIG~~ Implementation Issue K5 does not apply to this Issue, since it is specifically intended to address situations in which an embedded derivative is not required to be accounted for separately under Statement 133 as a result of newly issued Statement 133 implementation guidance.

Disclosure

6~~4~~. The Task Force also reached a ~~[~~consensus~~]~~ that an issuer shall disclose the following information ~~when~~ for the period in which an embedded conversion option previously accounted for as a derivative under Statement 133 no longer meets the separation criteria under that Statement:

a. A description of the principal changes causing the embedded conversion option to no longer require bifurcation under Statement 133
b. The amount of the liability for the conversion option reclassified to stockholders' equity.

Transition

7~~5~~. The consensus in this Issue should be applied to ~~all~~ previously bifurcated conversion options in convertible debt instruments that ~~no longer~~ cease to meet the bifurcation criteria in Statement 133 in interim or annual periods beginning after December 15, 2006, irrespective of whether the debt instrument was entered into prior or subsequent to the effective date of this Issue. Earlier application of this Issue is permitted in periods for which financial statements have not yet been issued. Retrospective application pursuant to Statement 154 to previously issued financial statements is permitted.

Board Ratification

8~~6~~. At its ~~[~~November 29, 2006~~]~~ meeting, the Board ratified the ~~[~~consensus~~]~~ reached by the Task Force in this Issue.

STATUS

9~~7~~. No further EITF discussion is planned.

Issue No. 06-8

Title: Applicability of the Assessment of a Buyer's Continuing Investment under FASB Statement No. 66, *Accounting for Sales of Real Estate,* for Sales of Condominiums

Dates Discussed: September 7, 2006; November 16, 2006

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

Introduction

1. Paragraph 37 of Statement 66 provides the criteria that must be met to recognize profit under the percentage-of-completion method for individual units in a condominium project that are being sold separately. One criterion is that the sales price is collectible (paragraph 37(d) of Statement 66). To provide guidance on how entities should assess the collectibility of the sales price, paragraph 37(d) of Statement 66 parenthetically references paragraph 4 of Statement 66.

2. Under paragraph 4 of Statement 66, "…collectibility of the sales price is demonstrated by the buyer's commitment to pay, which in turn is supported by substantial initial and continuing investments that give the buyer a stake in the property sufficient that the risk of loss through default motivates the buyer to honor its obligation to the seller. Collectibility shall also be assessed by considering factors such as the credit standing of the buyer, age and location of the property, and adequacy of cash flow from the property." Questions have been raised about whether the continuing investment test in paragraph 12 of Statement 66 should be applied to conclude that the sales price is collectible and to recognize profit under the percentage-of-completion method for sales of individual condominium units.

Issue

3. The issue is:

Issue 1— Whether, in a sale of an individual condominium unit, an entity needs to evaluate the adequacy of the buyer's continuing investment pursuant to paragraph 12 of Statement 66 to recognize profit under the percentage-of-completion method.

Scope

4. The scope of this Issue is limited to the sale of individual units in a condominium project.

Prior EITF Discussion

5. At the September 7, 2006 EITF meeting, the Task Force reached a tentative conclusion that in assessing the collectibility of the sales price pursuant to paragraph 37(d) of Statement 66, an entity should evaluate the adequacy of the buyer's initial and continuing investment to conclude that the sales price is collectible. The Task Force agreed that an entity can meet the continuing investment criterion in paragraph 12 of Statement 66 by requiring the buyer to either (a) make additional payments during the construction term at least equal to the level annual payments that would be required to fund principal and interest on an amortizing customary mortgage for the remaining purchase price of the property (excess of the purchase price over the initial investment

by the buyer) or (b) increase the minimum initial investment by an equivalent aggregate amount. The remaining purchase price should be determined by reference to the sales price of the property. The Task Force believes that the test should be performed using a hypothetical loan between the seller and the buyer for the amount of the purchase price less the buyer's initial investment. The Task Force ultimately concluded that because paragraph 12 of Statement 66 refers to the buyer's "debt for the purchase price of the property," using the remaining purchase price to calculate the hypothetical loan between the seller and the buyer would be consistent with Statement 66.

6. Based on the Task Force's tentative conclusion, for transactions within the scope of this Issue, if an entity is unable to meet the criteria in paragraph 37, including an assessment of collectibility using the initial and continuing investment tests described in paragraphs 8–12 of Statement 66, then the entity should apply the deposit method as described in paragraphs 65–67 of Statement 66.

Current EITF Discussion

7. At the November 16, 2006 EITF meeting, the Task Force discussed the FASB staff's analysis of the comment letters received on the draft abstract. The Task Force considered the following additional issue as a result of the comment letters received on the draft abstract.

Issue 2—When an entity reassesses the criteria in paragraph 37 of Statement 66, whether the entity should apply the initial and continuing investment tests on a cumulative basis from the contract date or prospectively from the reassessment date (that is, the date on which an entity that was not previously eligible to recognize profit under the percentage-of-completion method reassesses whether it is now eligible to recognize profit under the percentage-of completion method by meeting the criteria in paragraph 37 of Statement 66).

8. The Task Force reached a consensus that on a reassessment date, an entity should reassess all of the criteria in paragraph 37 of Statement 66 to determine whether profit should be recognized under the percentage-of-completion method. The Task Force also reached a consensus that in reassessing the collectibility of the sales price, the initial and continuing investment tests should be applied prospectively from the reassessment date (as if the deposit was received on the reassessment date).

9. The Task Force also affirmed as a consensus the tentative conclusion reached at the September 7, 2006 EITF meeting on Issue 1. The Task Force also observed that consistent with the requirements for sales of other types of real estate, the buyer's initial and continuing investments should be in any of the forms specified in paragraph 9 of Statement 66 and should consider only the nonrefundable portion of such investments.

10. Appendix 06-8A reflects changes made to the draft abstract as a result of the above decisions (additions are underscored and deletions are ~~struck through~~).

Transition and Disclosure

11. The consensus in this Issue is effective for the first annual reporting period beginning after March 15, 2007. Earlier application is permitted as of the beginning of a fiscal year provided that the entity has not yet issued financial statements for that fiscal year. Entities that have not accounted for sales of condominiums in a manner that is consistent with the consensus in this Issue should recognize the effect of the consensus as a change in accounting principle through a cumulative-effect adjustment to retained earnings or to other components of equity or net assets in the statement of financial position at the beginning of the year of adoption. Further, entities should disclose the cumulative effect of the change on retained earnings or on other components of equity or net assets in the statement of financial position.

Board Ratification

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

Status

13. No further EITF discussion is planned.

Appendix 06-8A

***EITF ABSTRACTS* (DRAFT*)**

Issue No. 06-8

Title: Applicability of the Assessment of a Buyer's Continuing Investment under FASB Statement No. 66 for Sales of Condominiums

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

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

ISSUE

1. Paragraph 37 of Statement 66 provides guidance on what criteria must be met to recognize profit under the percentage-of-completion method for individual units in a condominium project that are being sold separately. One criterion is that the sales price is collectible (paragraph 37(d) of Statement 66). To provide guidance on how entities should assess the collectibility of the sales price, paragraph 37(d) of Statement 66 parenthetically references paragraph 4 of Statement 66.

2. Under paragraph 4 of Statement 66, "…collectibility of the sales price is demonstrated by the buyer's commitment to pay, which in turn is supported by substantial initial and continuing investments that give the buyer a stake in the property sufficient that the risk of loss through default motivates the buyer to honor its obligation to the seller. Collectibility shall also be assessed by considering factors such as the credit standing of the buyer, age and location of the property, and adequacy of cash flow from the property." Questions have been raised about whether the continuing investment test in paragraph 12 of Statement 66 should be applied in order to conclude that the sales price is collectible and to recognize profit under the percentage-of-completion method.

3. The issues ~~is~~ are:

Issue 1— ~~w~~Whether an entity needs to evaluate the adequacy of the buyer's continuing investment pursuant to paragraph 12 of Statement 66 to recognize profit under the percentage-of-completion method

Issue 2— When an entity reassesses the criteria in paragraph 37 of Statement 66, whether the entity should apply the initial and continuing investment tests on a cumulative basis from the contract date or prospectively from the reassessment date (that is, the date on which an entity that was not previously eligible to recognize profit under the

* **This draft abstract was prepared to facilitate discussion of the guidance on which the Task Force reached its consensus and contains all substantive aspects of the consensus. The final abstract, which will be included in the next update for *EITF Abstracts*, may contain nonsubstantive editorial revisions.**

percentage-of-completion method reassesses whether it is now eligible to recognize profit under the percentage-of completion method by meeting the criteria in paragraph 37 of Statement 66).

Scope

4. The scope of this Issue is limited to the sale of individual units in a condominium project.

EITF DISCUSSION

5. The Task Force reached a ~~[~~consensus~~]~~ that in assessing the collectibility of the sales price pursuant to paragraph 37(d) of Statement 66, an entity should evaluate the adequacy of the buyer's initial and continuing investment to conclude that the sales price is collectible. The Task Force observed that, consistent with the requirements for sales of other types of real estate, the buyer's initial and continuing investments should be in any of the forms specified in paragraph 9 of Statement 66 and should consider only the nonrefundable portion of such investments.

6. An entity can meet the continuing investment criterion in paragraph 12 of Statement 66 by requiring the buyer to either (a) make additional payments during the construction term at least equal to the level annual payments that would be required to fund principal and interest on an amortizing customary mortgage for the remaining purchase price of the property (excess of the purchase price over the initial investment by the buyer) or (b) increase the minimum initial investment by an equivalent aggregate amount. The remaining purchase price should be determined based on the sales price of the property. The Task Force believes that the test should be performed using a hypothetical loan between the seller and the buyer for the amount of the purchase price less the buyer's initial investment. The Task Force ultimately concluded that because paragraph 12 of Statement 66 refers to the buyer's "debt for the purchase price of the property," using the remaining purchase price would be consistent with Statement 66.

7~~6~~. If an entity is unable to meet the criteria in paragraph 37, including an assessment of collectibility using the initial and continuing investment tests described in paragraphs 8–12 of Statement 66, then the entity should apply the deposit method as described in paragraphs 65–67 of Statement 66 until the criteria in paragraph 37 are met. On a reassessment date, an entity should reassess all of the criteria in paragraph 37 of Statement 66 to determine whether profit should be recognized under the percentage-of-completion method. The Task Force reached a consensus that in reassessing the collectibility of the sales price, the initial and continuing investment tests should be applied prospectively from the reassessment date (as if the deposit was received on the reassessment date).

Transition

8~~7~~. The ~~[~~consensus~~]~~ in this Issue is effective for the first annual reporting period beginning after March 15, 2007. Earlier application is permitted as of the beginning of an entity's fiscal year provided that the entity has not yet issued financial statements for that fiscal year. Entities that have not accounted for sales of condominiums in a manner that is consistent with the ~~[~~consensus~~]~~ in this Issue should recognize the effect of the ~~[~~consensus~~]~~ ~~in this Issue~~ as a change in accounting principle through a cumulative-effect adjustment to retained earnings or to other components of equity or net assets in the statement of financial position at the beginning of the year of adoption.

Further, entities should disclose the cumulative effect of the change on retained earnings or on other components of equity or net assets in the statement of financial position.

Board Ratification

9~~8~~. At its ~~[~~November 29, 2006~~]~~ meeting, the Board ratified the ~~[~~consensus~~]~~ reached by the Task Force in this Issue.

STATUS

10~~9~~. No further EITF discussion is planned.

Issue No. 06-9

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

Dates Discussed: September 7, 2006; November 16, 2006

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

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

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

Introduction

1. ARB 51 and Opinion 18 allow a parent to have a difference between the parent's reporting year-end and the reporting year-end of a consolidated entity or an investor to have a difference between the reporting year-end of the investor and the reporting year-end of an equity method investee to consolidate the results of an entity's operations (or to recognize changes in the net assets of an equity method investment). In practice, questions have arisen as to how a parent or investor should recognize a change to the reporting year-end of either a consolidated entity or an equity method investee. That change may include a change in or the elimination of the previously existing difference (lag period) due to the parent's or investor's ability to obtain financial results from a reporting period that is more consistent with, or the same as, that of the parent or investor.

Issue

2. The issue is how a parent should recognize the effect of a change to (or the elimination of) an existing difference between the parent's reporting period and the reporting period of a consolidated entity or between the reporting period of an investor and the reporting period of an equity method investee.

Scope

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

Prior Task Force Discussion

4. At the September 7, 2006 EITF meeting, the Task Force reached a tentative conclusion that a parent or an investor should report a change to (or the elimination of) a previously existing difference between the parent's reporting period and the reporting period of a consolidated entity or between the reporting period of an investor and the reporting period of an equity method investee in the parent's or investor's consolidated financial statements as a change in accounting principle in accordance with the provisions of Statement 154. The Task Force noted that while Statement 154 generally requires voluntary changes in accounting principles to be reported

retrospectively, retrospective application is not required if it is impracticable to apply the effects of the change pursuant to paragraph 11 of Statement 154. In reaching this consensus, the Task Force concluded that the change or elimination of a lag period represents a change in accounting principle as defined in Statement 154.

Current EITF Discussion

5. At the November 16, 2006 EITF meeting, the Task Force affirmed as a consensus the tentative conclusions reached at the September 7, 2006 EITF meeting.

6. Appendix 06-9A reflects changes made to the draft abstract as a result of the Task Force discussion (additions are underscored and deletions are ~~struck through~~).

Disclosure

7. An entity should make the disclosures required pursuant to Statement 154.

Transition

8. The consensus in this Issue is effective for changes occurring in interim or annual reporting periods beginning after Board ratification (November 29, 2006). Earlier application of this guidance is permitted in periods for which financial statements have not yet been issued.

Board Ratification

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

Status

10. No further EITF discussion is planned.

Appendix 06-9A

EITF ABSTRACTS (DRAFT*)

Issue No. 06-9

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

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

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

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

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

ISSUE

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

2. The issue is how a parent should recognize the effect of a change to (or the elimination of) an existing difference between the parent's reporting period and the reporting period of a consolidated entity or between the reporting period of an investor and the reporting period of an equity method investee.

Scope

3. The scope of this Issue applies to all entities that change (or eliminate) a previously existing difference between the reporting periods of a parent and a consolidated entity or an investor and

* **This draft abstract was prepared to facilitate discussion of the guidance on which the Task Force reached its consensus and contains all substantive aspects of the consensus. The final abstract, which will be included in the next update for *EITF Abstracts*, may contain nonsubstantive editorial revisions.**

an equity method investee. This Issue does not apply in situations in which a parent company or an investor changes its fiscal year-end.

EITF DISCUSSION

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

Disclosure

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

Transition

6. The ~~[~~consensus~~]~~ in this Issue should be effective for ~~future~~ changes occurring ~~beginning~~ in ~~the first~~ interim or annual reporting periods beginning after ~~following~~ Board ratification (November 29, 2006). Earlier application of this guidance is permitted in periods for which financial statements have not yet been issued.

Board Ratification

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

STATUS

8. ~~[~~No further EITF discussion is planned.~~]~~

Issue No. 06-10

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

Date Discussed: November 16, 2006

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

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. 154, *Accounting Changes and Error Corrections*

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

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

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*

APB Opinion No. 21, *Interest on Receivables and Payables*

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

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

International Accounting Standard 19, *Employee Benefits*

EITF Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements"

EITF Issue No. 06-5, "Accounting for Purchases of Life Insurance—Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4"

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. The two most common types of arrangements are endorsement split-dollar life insurance arrangements and collateral assignment split-dollar life insurance arrangements. Generally, the difference between these arrangements is dependent upon the ownership and control of the life insurance policy. In an endorsement split-dollar life insurance arrangement, the company owns and controls the insurance policy, whereas in a collateral assignment split-dollar life insurance arrangement, the employee (or the employee's estate or a trust controlled by the employee, hereinafter referred to as the "employee") owns and controls the insurance policy.

2. The Task Force reached a consensus on Issue 06-4 that for an endorsement split-dollar life insurance arrangement, an employer should recognize a liability for future benefits in accordance with Statement 106 (if, in substance, a postretirement benefit plan exists) or Opinion 12 (if the arrangement is, in substance, an individual deferred compensation contract) based on the substantive agreement with the employee. However, questions have been raised about whether the consensus reached in Issue 06-4 should apply to collateral assignment split-dollar life insurance arrangements. This Issue also addresses the recognition and measurement of the employer's asset in a collateral assignment split-dollar life insurance arrangement.

Issues

3. The issues are:

Issue 1— Whether an entity should record a liability for the postretirement benefit associated with a collateral assignment split-dollar life insurance arrangement in accordance with either Statement 106 (if, in substance, a postretirement benefit plan exists) or Opinion 12 (if the arrangement is, in substance, an individual deferred compensation contract) based on the substantive agreement with the employee (consistent with the consensus reached in Issue 06-4)

Issue 2— How an employer should recognize and measure the asset in a collateral assignment split-dollar life insurance arrangement.

Scope

4. The scope of this Issue is limited to the employer's recognition of (a) the liability and the related compensation costs for collateral assignment split-dollar life insurance arrangements that provide a benefit to an employee that extends into postretirement periods and (b) the asset in collateral assignment split-dollar arrangements. However, the employer's recognition of the liability does not apply to a collateral assignment split-dollar life insurance arrangement that provides a specified benefit to an employee that is limited to that employee's active service period with an employer or that has been settled pursuant to Statement 106.

Current EITF Discussion

5. At the November 16, 2006 EITF meeting, the Task Force reached a tentative conclusion on Issue 1 that an employer should recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with either Statement 106 (if, in substance, a postretirement benefit plan exists) or Opinion 12 (if the arrangement is, in substance, an individual deferred compensation contract) based on the substantive agreement with the employee. In determining whether a postretirement benefit has been settled by an insurance contract, the Task Force observed that an employer should analyze whether the employer remains subject to the risks or rewards associated with the underlying insurance contract (in the postretirement period) that collateralizes the employer's asset. The Task Force observed that if the employer's asset is collateralized by the employee's (or retiree's) underlying insurance contract or the recourse nature of the loan is not substantive, then a settlement has not occurred pursuant to Statement 106. The recourse nature of the loan is substantive if the employer has the intent and ability to fully recover amounts due under the collateral assignment

arrangement in the event of default by the insurer. For example, if the amounts due under a collateral assignment split-dollar life insurance arrangement are full recourse to the employee (or retiree), but the employer does not intend to seek recovery beyond the life insurance policy, the full recourse collateral provisions of the arrangement would not be substantive and settlement of the postretirement benefit would not have occurred. However, in determining whether the postretirement benefit has been settled pursuant to Statement 106, an employer should evaluate all the available facts and circumstances of these arrangements.

6. On Issue 2, the Task Force reached a tentative conclusion that an employer should recognize and measure an asset based on the nature and substance of the collateral assignment split-dollar life insurance arrangement. The Task Force observed that in determining the nature and substance of the arrangement, the employer should assess what future cash flows the employer is entitled to, if any, as well as the employee's obligation and ability to repay the employer. For example, if the arrangement limited the amount the employer could recover to the amount of the cash surrender value of the insurance policy held by the employee (or retiree), and if the employer's loan to the employee (or retiree) is greater than the cash surrender value of the insurance policy, at the balance sheet date the employer's asset would be limited to the amount of the cash surrender value of the insurance policy. Conversely, if the arrangement required the employee (or retiree) to repay the employer irrespective of the amount of the cash surrender value of the insurance policy (and assuming the employee (or retiree) is an adequate credit risk), the employer should recognize the value of the loan (including accrued interest, if applicable) considering the guidance in Opinion 21. An employer should evaluate all available information in determining the nature and substance of the collateral assignment split-dollar arrangement.

Transition

7. The Task Force reached a tentative conclusion that the [consensus] in this Issue should be effective for fiscal years beginning after December 15, 2007, with earlier application permitted. Entities should recognize the effects of applying the [consensus] in this Issue through either (a) a change in accounting principle through a cumulative-effect adjustment to retained earnings or to other components of equity or net assets in the statement of financial position as of the beginning of the year of adoption or (b) a change in accounting principle through retrospective application to all prior periods.

8. If an entity chooses to apply the [consensus] in this Issue as a change in accounting principle through a cumulative-effect adjustment to retained earnings, the entity should disclose the cumulative effect of the change on retained earnings or on other components of equity or net assets in the statement of financial position.

9. If an entity chooses to apply the [consensus] in this Issue as a change in accounting principle through retrospective application to all prior periods, the entity should include the recognition of:

a. The cumulative effect of the change in 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. The cumulative effect of the change in accounting principle on retained earnings or on other components of equity or net assets in the statement of financial position

c. Adjustments to financial statements for each individual prior period presented to reflect the period-specific effects of applying the change in accounting principle.

10. If an entity chooses to apply the tentative conclusions in this Issue as a change in accounting principle through retrospective application to all prior periods, the entity should disclose the following:

a. A description of the prior-period information that has been retrospectively adjusted
b. The effect of the change in accounting principle 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 caption, and any affected per-share amounts for any prior periods retrospectively adjusted
c. The cumulative effect of the change in accounting principle 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

11. At its November 29, 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 public comment period. A draft abstract is included as Appendix 06-10A.

Status

12. The draft abstract will be posted to the FASB website after December 5, 2006. Comments on the draft abstract are due by January 22, 2007. Further discussion is expected at a future meeting.

Appendix 06-10A

EITF ABSTRACTS (DRAFT[1])

Issue No. 06-10

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

Dates Discussed: November 16, 2006; [March 14–15, 2007]

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

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. 154, *Accounting Changes and Error Corrections*

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

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

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*

APB Opinion No. 21, *Interest on Receivables and Payables*

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

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

International Accounting Standard 19, *Employee Benefits*

EITF Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements"

EITF Issue No. 06-5, "Accounting for Purchases of Life Insurance—Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4"

ISSUE

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. The two most common types of arrangements are endorsement split-dollar life insurance arrangements and collateral assignment split-dollar

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

life insurance arrangements. Generally, the difference between these arrangements is dependent upon the ownership and control of the life insurance policy. In an endorsement split-dollar life insurance arrangement, the company owns and controls the insurance policy, whereas in a collateral assignment split-dollar life insurance arrangement, the employee (or the employee's estate or a trust controlled by the employee, hereinafter referred to as the "employee") owns and controls the insurance policy.

2. The Task Force reached a consensus on Issue 06-4 that for an endorsement split-dollar life insurance arrangement, an employer should recognize a liability for future benefits in accordance with Statement 106 (if, in substance, a postretirement benefit plan exists) or Opinion 12 (if the arrangement is, in substance, an individual deferred compensation contract) based on the substantive agreement with the employee. However, questions have been raised about whether the consensus reached in Issue 06-4 should apply to collateral assignment split-dollar life insurance arrangements. This Issue also addresses the recognition and measurement of the employer's asset in a collateral assignment split-dollar life insurance arrangement.

3. The issues are:

Issue 1— Whether an entity should record a liability for the postretirement benefit associated with a collateral assignment split-dollar life insurance arrangement in accordance with either Statement 106 (if, in substance, a postretirement benefit plan exists) or Opinion 12 (if the arrangement is, in substance, an individual deferred compensation contract) based on the substantive agreement with the employee (consistent with the consensus reached in Issue 06-4)

Issue 2— How an employer should recognize and measure the asset in a collateral assignment split-dollar life insurance arrangement.

Scope

4. The scope of this Issue is limited to the employer's recognition of (a) the liability and the related compensation costs for collateral assignment split-dollar life insurance arrangements that provide a benefit to an employee that extends into postretirement periods and (b) the asset in collateral assignment split-dollar arrangements. However, the employer's recognition of the liability would not apply to a collateral assignment split-dollar life insurance arrangement that provides a specified benefit to an employee that is limited to that employee's active service period with an employer or that has been settled pursuant to Statement 106.

EITF DISCUSSION

5. The Task Force reached a [consensus] on Issue 1 that an employer should recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with either Statement 106 (if, in substance, a postretirement benefit plan exists) or Opinion 12 (if the arrangement is, in substance, an individual deferred compensation contract) based on the substantive agreement with the employee. In determining whether a postretirement benefit has been settled by an insurance contract, an employer should analyze whether the employer remains subject to the risks or rewards associated with the underlying insurance contract (in the postretirement period) that collateralizes the employer's

asset. If the employer's asset is collateralized by the employee's (or retiree's) underlying insurance contract or the recourse nature of the loan is not substantive, then a settlement has not occurred pursuant to Statement 106. The recourse nature of the loan is substantive if the employer has the intent and ability to fully recover amounts due under the collateral assignment arrangement in the event of default by the insurer. For example, if the amounts due under a collateral assignment split-dollar life insurance arrangement are full recourse to the employee (or retiree), but the employer does not intend to seek recovery beyond the life insurance policy, the full recourse collateral provisions of the arrangement would not be substantive and settlement of the postretirement benefit would not have occurred. However, in determining whether the postretirement benefit has been settled pursuant to Statement 106, an employer should evaluate all the available facts and circumstances of these arrangements.

6. On Issue 2, the Task Force reached a [consensus] that an employer should recognize and measure an asset based on the nature and substance of the collateral assignment split-dollar life insurance arrangement. The Task Force observed that in determining the nature and substance of the arrangement, the employer should assess what future cash flows the employer is entitled to, if any, as well as the employee's obligation and ability to repay the employer. For example, if the arrangement limited the amount the employer could recover to the amount of the cash surrender value of the insurance policy held by the employee (or retiree), and if the employer's loan to the employee (or retiree) is greater than the cash surrender value of the insurance policy, at the balance sheet date the employer's asset would be limited to the amount of the cash surrender value of the insurance policy. Conversely, if the arrangement required the employee to repay the employer irrespective of the amount of the cash surrender value of the insurance policy (and assuming the employee (or retiree) is an adequate credit risk), the employer should recognize the value of the loan (including accrued interest, if applicable) considering the guidance in Opinion 21. An employer should evaluate all available information in determining the nature and substance of the collateral assignment split-dollar arrangement.

Transition

7. The [consensus] in this Issue should be effective for fiscal years beginning after December 15, 2007, with earlier application permitted. Entities should recognize the effects of applying the [consensus] in this Issue through either (a) a change in accounting principle through a cumulative-effect adjustment to retained earnings or to other components of equity or net assets in the statement of financial position as of the beginning of the year of adoption or (b) a change in accounting principle through retrospective application to all prior periods.

8. If an entity chooses to apply the [consensus] in this Issue as a change in accounting principle through a cumulative-effect adjustment to retained earnings, the entity should disclose the cumulative effect of the change on retained earnings or on other components of equity or net assets in the statement of financial position.

9. If an entity chooses to apply the [consensus] in this Issue as a change in accounting principle through retrospective application to all prior periods, the entity should include the recognition of:

a. The cumulative effect of the change in 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. The cumulative effect of the change in accounting principle on retained earnings or on other components of equity or net assets in the statement of financial position
c. Adjustments to financial statements for each individual prior period presented to reflect the period-specific effects of applying the change in accounting principle.

10. If an entity chooses to apply the [consensus] in this Issue as a change in accounting principle through retrospective application to all prior periods, the entity should disclose the following:

a. A description of the prior-period information that has been retrospectively adjusted
b. The effect of the change in accounting principle 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 caption, and any affected per-share amounts for any prior periods retrospectively adjusted
c. The cumulative effect of the change in accounting principle 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

11. At its [March 28, 2007] meeting, the Board ratified the [consensus] reached by the Task Force in this Issue.

STATUS

12. No further EITF discussion is planned.

Issue No. 06-11

Title: Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards

Date Discussed: November 16, 2006

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

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

Introduction

1. Employees may receive, as part of a share-based payment arrangement, dividends or dividend equivalents on awards of (a) nonvested equity shares and nonvested equity share units during the vesting period or (b) equity share options until they are exercised. In some cases, the payment of dividends on nonvested equity shares, nonvested equity share units, and outstanding equity share options is treated as deductible compensation for income tax purposes, even though the payment of such dividends is charged to retained earnings for awards that vest in the employer's financial statements. Questions have arisen on the accounting for income tax benefits related to the payment of dividends on equity-classified employee share-based payment awards that are charged to retained earnings under Statement 123(R).

Issue

2. The issue is how a company should recognize the income tax benefit received on dividends that are (a) paid to employees holding equity-classified nonvested shares, equity-classified nonvested share units, or equity-classified outstanding share options and (b) charged to retained earnings under Statement 123(R).

Scope

3. This Issue applies to share-based payment arrangements with dividend protection features that entitle employees to receive (a) dividends on equity-classified nonvested shares, (b) dividend equivalents on equity-classified nonvested share units, or (c) payments equal to the dividends paid on the underlying shares while an equity-classified share option is outstanding, when those dividends or dividend equivalents are charged to retained earnings under Statement 123(R) and result in an income tax deduction for the employer.

Current EITF Discussion

4. At the November 16, 2006 EITF meeting, the Task Force reached a tentative conclusion that a realized income tax benefit from dividends or dividend equivalents that are charged to retained earnings and are paid to employees for equity classified nonvested equity shares, nonvested equity share units, and outstanding equity share options should be recognized as an increase in additional paid-in capital. The amount recognized in additional paid-in capital for the realized income tax benefit from dividends on those awards should be included in the pool of excess tax benefits available to absorb potential future tax deficiencies on share-based payment awards.

5. In reaching the tentative conclusion, the Task Force considered that dividends or dividend equivalents that are paid to employees for nonvested equity shares, nonvested equity share units, and outstanding equity share options that are charged to retained earnings may result in a tax deduction prior to the actual realization of the related tax benefit because the employer, for

example, has a net operating loss carryforward. Pursuant to the guidance in footnote 82 of Statement 123(R), the income tax benefit of those dividends would not be recognized until the deduction reduces income taxes payable. Unrealized income tax benefits from dividends on equity-classified employee share-based payment awards should be excluded from the pool of excess tax benefits available to absorb tax deficiencies on share-based payment awards.

Transition

6. The Task Force reached a tentative conclusion that this Issue should be applied prospectively to the income tax benefits of dividends on equity-classified employee share-based payment awards that are declared in fiscal years beginning after September 15, 2007. Early application is permitted for the income tax benefits of dividends on equity-classified employee share-based payment awards that are declared in periods for which financial statements have not yet been issued. Retrospective application to previously issued financial statements is prohibited. Entities shall disclose the nature of any change in their accounting policy for income tax benefits of dividends on share-based payment awards resulting from the adoption of this guidance.

Board Ratification

7. At its November 29, 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 public comment period. A draft abstract is included as Appendix 06-11A.

Status

8. The draft abstract will be posted to the FASB website after December 5, 2006. Comments on the draft abstract are due by January 22, 2007. Further discussion is expected at a future meeting.

Appendix 06-11A

EITF ABSTRACTS (DRAFT[1])

Issue No. 06-11

Title: Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards

Dates Discussed: November 16, 2006; [March 14–15, 2007]

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

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

ISSUE

1. Employees may receive, as part of a share-based payment arrangement, dividends or dividend equivalents on awards of (a) nonvested equity shares and nonvested equity share units during the vesting period or (b) equity share options until they are exercised. In some cases, the payment of dividends on nonvested equity shares, nonvested equity share units, and outstanding equity share options is treated as deductible compensation for income tax purposes, even though the payment of such dividends is charged to retained earnings for awards that vest in the employer's financial statements. Questions have arisen on the accounting for income tax benefits related to the payment of dividends on equity-classified employee share-based payment awards that are charged to retained earnings under Statement 123(R).

2. The issue is how a company should recognize the income tax benefit received on dividends that are (a) paid to employees holding equity-classified nonvested shares, equity-classified nonvested share units, or equity-classified outstanding share options and (b) charged to retained earnings under Statement 123(R).

Scope

3. This Issue applies to share-based payment arrangements with dividend protection features that entitle employees to receive (a) dividends on equity-classified nonvested shares, (b) dividend equivalents on equity-classified nonvested share units, or (c) payments equal to the dividends paid on the underlying shares while an equity-classified share option is outstanding, when those dividends or dividend equivalents are charged to retained earnings under Statement 123(R) and result in an income tax deduction for the employer.

EITF DISCUSSION

4. The Task Force reached a [consensus] that a realized income tax benefit from dividends or dividend equivalents that are charged to retained earnings and are paid to employees for equity classified nonvested equity shares, nonvested equity share units, and outstanding equity share

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

options should be recognized as an increase to additional paid-in capital. The amount recognized in additional paid-in capital for the realized income tax benefit from dividends on those awards should be included in the pool of excess tax benefits available to absorb tax deficiencies on share-based payment awards.

5. In reaching the tentative conclusion, the Task Force considered that dividends or dividend equivalents that are paid to employees for nonvested equity shares, nonvested equity share units, and outstanding equity share options that are charged to retained earnings may result in a tax deduction prior to the actual realization of the related tax benefit because the employer, for example, has a net operating loss carryforward. Pursuant to the guidance in footnote 82 of Statement 123(R), the income tax benefit of those dividends would not be recognized until the deduction reduces income taxes payable. Unrealized income tax benefits from dividends on equity-classified employee share-based payment awards should be excluded from the pool of excess tax benefits available to absorb potential future tax deficiencies on share-based payment awards.

Transition

6. The Task Force reached a [consensus] that this Issue should be applied prospectively to the income tax benefits of dividends on equity-classified employee share-based payment awards that are declared in fiscal years beginning after September 15, 2007. Early application is permitted for the income tax benefits of dividends on equity-classified employee share-based payment awards that are declared in periods for which financial statements have not yet been issued. Retrospective application to previously issued financial statements is prohibited. Entities shall disclose the nature of any change in their accounting policy for income tax benefits of dividends on share-based payment awards resulting from the adoption of this [consensus].

Board Ratification

7. At its [March 28, 2007] meeting, the Board ratified the [consensus] reached by the Task Force in this Issue.

STATUS

8. No further EITF discussion is planned.

Issue No. 06-12

Title: Accounting for Physical Commodity Inventories for Entities within the Scope of the AICPA Audit and Accounting Guide, *Brokers and Dealers in Securities*

Date Discussed: November 16, 2006

References: FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*

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

FASB Statement No. 157, *Fair Value Measurements*

AICPA Accounting Research Bulletin No. 43, *Restatement and Revision of Accounting Research Bulletins*, Chapter 4, "Inventory Pricing"

AICPA Audit and Accounting Guide, *Brokers and Dealers in Securities*

AICPA Audit and Accounting Guide, *Investment Companies*

International Accounting Standard No. 2, *Inventories*

EITF Issue No. 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities"

Introduction

1. The broker-dealer Guide (the Guide) provides specialized guidance to assist brokers and dealers in securities in preparing financial statements in conformity with generally accepted accounting principles. In practice, diversity exists regarding the interpretation of the type of entity that can apply the Guide. Some believe that the Guide is only applicable to entities that are regulated as broker-dealers under the Securities Exchange Act of 1934 or comparable foreign regulation, while others believe that the Guide is also applicable to entities that perform activities similar to those of a regulated broker-dealer. Still others believe that the Guide should be applicable to all entities within a consolidated group (except those entities covered by other specialized industry guidance, for example, banking and insurance), if the predominant activities of the consolidated entity are those of a broker-dealer.

2. In addition to the interpretation of the type of entity that can apply the Guide, diversity exists on whether entities that are within the scope of the Guide should be accounting for physical commodity inventory at fair value or whether they should be accounting for physical commodity inventory pursuant to the guidance in ARB 43 (at cost, less impairment). Industry practice for those entities that have applied the Guide has been to interpret the definition of inventory as all positions (including financial instruments and physical commodities) that are held (a) for sale to customers in connection with market-making activities, (b) as proprietary positions, or (c) to economically hedge risks inherent in both market-making activities and proprietary positions.

Issues

3. The issues are:

Issue 1— How to determine whether an entity is included within the scope of the Guide

Issue 2— Whether entities within the scope of the Guide should record physical commodity inventory at fair value.

Current EITF Discussion

4. At the November 16, 2006 EITF meeting, the Task Force deferred making a decision on this Issue and recommended that the Board consider addressing the accounting for traded physical commodity inventory through the issuance of an FASB Staff Position (FSP).

5. At a future meeting, the Task Force will evaluate whether it is necessary to continue discussing this Issue after considering the Board's decision whether to add the recommended project to the Board's agenda.

6. The Task Force requested that the staff further explore the criteria used to determine the application of an activities-based approach in interpreting whether an entity should be included within the scope of the Guide.

Status

7. 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 March 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
06-10	Accounting for the Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements	10/06	11/06	3/07	Holman	Trench/ Cosper	The FASB staff will prepare an Issue Summary Supplement for a future meeting.	March 2007 EITF meeting
06-11	Accounting for Tax Benefits of Dividends on Share-Based Payment Awards	10/06	11/06	3/07	Hauser	Stevens/ Paul	The FASB staff will prepare an Issue Summary Supplement for a future meeting.	March 2007 EITF meeting

Issue No.	Description	Date Added	Date(s) Discussed	Next Meeting	EITF Liaison	FASB Staff	Immediate Plans	Due Date - Next Deliverable
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	3/07	Johnson	Fanzini/ Jacobs	The FASB staff will prepare an Issue Summary Supplement for a future meeting.	TBD
06-I	Accounting for Joint Development, Manufacturing, and Marketing Arrangements in the Biotechnology and Pharmaceutical Industries	8/06	N/A	3/07	Schroeder	Bolash/ Beswick	The FASB staff will prepare an Issue Summary for a future meeting.	March 2007 EITF meeting

Other EITF Issues including Inactive Issues Pending Developments in Board Projects							
Issue No.	**Description**	**Date Added**	**Date(s) Discussed**	**Next Meeting**	**FASB Staff**	**Immediate Plans**	**Due Date - Next Deliverable**
00-18	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	N/A	Sarno	Phase II of the Board's share-based payments project will not be initiated in the foreseeable future and, therefore, the FASB staff will bring this issue to the Agenda Committee at a future meeting to determine whether to begin discussions on this Issue or to request that the Task Force remove this Issue from the agenda.	Future Agenda Committee Meeting
	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	TBD	Pending further progress on Phase II of the Board's liabilities and equity project.	N/A

Other EITF Issues including Inactive Issues Pending Developments in Board Projects							
Issue No.	**Description**	**Date Added**	**Date(s) Discussed**	**Next Meeting**	**FASB Staff**	**Immediate Plans**	**Due Date - Next Deliverable**
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	The Board's project on QSPE's is not expected to address this Issue and, therefore, the FASB staff will bring this Issue to the Agenda Committee at a future meeting to determine whether to begin discussions on this Issue or to request that the Task Force remove this Issue from the agenda.	Future Agenda Committee 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**
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	Jacobs/ TBD	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	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 or to request that the Task Force remove this Issue from the agenda.	Future Agenda Committee Meeting