FINANCIAL ACCOUNTING STANDARDS BOARD
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December 1, 2008

TO: MEMBERS OF THE FASB EMERGING ISSUES TASK FORCE

Included are the final minutes of the November 13, 2008 meeting of the FASB Emerging Issues Task Force and an inventory of open issues for the next EITF meeting. Also included is a confidential version of the minutes that has been marked for changes from the November 25 Fatal Flaw draft. After your review, please discard the confidential marked version of the minutes.

January Meeting
The next EITF meeting will be held on Thursday, **January 15, 2009,** at the FASB offices in Norwalk, Connecticut. Members are invited to participate by telephone if necessary (a special dial-in number will be designated later). The beginning and ending times for the meeting have not been decided yet but we will update you with those times in a few weeks.

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

Draft minutes available January 19, 2009
Final minutes available February 2, 2009.

Please call me at 203.956.5231 if you have any questions.

Sincerely,

Shea H. Malcolm
Practice Fellow
shmalcolm@fasb.org

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MINUTES OF THE NOVEMBER 13, 2008 MEETING OF THE FASB EMERGING ISSUES TASK FORCE

Location: FASB Offices
401 Merritt 7
Norwalk, Connecticut

Thursday, November 13, 2008
Starting Time: 8:30 a.m.
Concluding Time: 3:06 p.m.

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

Task Force Members Absent:
None

* For certain issues only.

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

Others at Meeting Table:
Robert H. Herz, FASB Board Member
Leslie F. Seidman, FASB Board Member
Larry W. Smith, FASB Board Member
Marc Siegel, FASB Board Member
Carlo D. Pippolo, Ernst & Young LLP (incoming Task Force member)
Eric West, SEC Associate Chief Accountant
Shea H. Malcolm, FASB Practice Fellow
* Kristofer E. Anderson, FASB Practice Fellow
* Chad I. Bonn, FASB Practice Fellow
* David B. Elsbree, Jr., FASB Practice Fellow
* Bradley J. Homant, FASB Practice Fellow
* Diane C. Inzano, FASB Practice Fellow
* Ronald W. Maples, FASB Practice Fellow
* Adrian E. Mills, FASB Practice Fellow
* Denise E. Moritz, FASB Project Manager
* Jeffery T. Nickell, FASB Practice Fellow

* For certain issues only.

ADMINISTRATIVE MATTERS

- The Task Force Chairman introduced Mr. Carlo D. Pippolo of Ernst & Young LLP, who will replace Mr. David Holman as a member of the Task Force beginning with the January 2009 meeting. The Chairman thanked Mr. Holman for his service.

- Prior EITF meeting minutes. An FASB staff member solicited objections to the final minutes of the September 10, 2008 meeting. No objections were noted.

- The Task Force discussed the report on the EITF Agenda Committee meeting held on October 10, 2008. The Agenda Committee discussed one proposed issue. Based on the recommendations of the Agenda Committee and input from the Board members, the FASB Chairman made the following decision:

  a. *Accounting for Share Lending Arrangements in Contemplation of Convertible Debt Issuances and the Related Determination of Earnings per Share*. This issue was added to the EITF agenda for discussion at a future meeting.

  The FASB Chairman also made the following decision on a previously considered proposed issue:

  b. *Selected Statement 160 Implementation Questions*. This issue was added to the EITF agenda. Refer to the discussion of EITF Issue No. 08-10, "Selected Statement 160 Implementation Questions," elsewhere in these minutes.

- Comment letters on the following Issues were reported as received and distributed to the Task Force:

  a. Two comment letters on EITF Issue No. 08-1, "Revenue Arrangements with Multiple Deliverables" (formerly titled "Revenue Recognition for a Single Unit of Accounting"). Refer to the discussion of Issue 08-1 elsewhere in these minutes for Task Force consideration of those comment letters.

  b. Two comment letters on EITF Issue No. 08-6, "Equity Method Investment Accounting Considerations." Refer to the discussion of Issue 08-6 elsewhere in these minutes for Task Force consideration of those comment letters.

  c. Three comment letters on EITF Issue No. 08-7, "Accounting for Defensive Intangible Assets." Refer to the discussion of Issue 08-7 elsewhere in these minutes for Task Force consideration of those comment letters.

  d. Two comment letters on EITF Issue No. 08-8, "Accounting for an Instrument (or an Embedded Feature) with a Settlement Amount That Is Based on the Stock of an Entity's Consolidated Subsidiary." Refer to the discussion of Issue 08-8 elsewhere in these minutes for Task Force consideration of those comment letters.

- January 2009 EITF meeting. An FASB staff member asked the Task Force to anticipate an EITF meeting to be held on January 15, 2009, to discuss Issue 08-10.

- EITF Procedures. An FASB staff member solicited objections to the proposed updates to the EITF Procedures. No objections were noted. The EITF Procedures will be finalized at a future EITF meeting.

- An FASB staff member announced that any consensuses-for-exposure reached at this meeting will be considered by the Board for ratification and exposure for public comment at the Board meeting on Monday, November 24, 2008. Any consensuses-for-exposure reached at prior meetings that are affirmed as consensuses at this meeting will also be considered by the Board for ratification at the Board meeting on Monday, November 24, 2008.

Issue No. 08-1

Title: Revenue Arrangements with Multiple Deliverables[1]

Dates Discussed: March 12, 2008; June 12, 2008; September 10, 2008; November 13, 2008

References: FASB Statement No. 13, *Accounting for Leases*

FASB Statement No. 45, *Accounting for Franchise Fee Revenue*

FASB Statement No. 48, *Revenue Recognition When Right of Return Exists*

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

FASB Statement No. 68, *Research and Development Arrangements*

FASB Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*

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

FASB Statement No. 157, *Fair Value Measurements*

FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*

FASB Technical Bulletin No. 90-1, *Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts*

FASB Concepts Statement No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*

AICPA Accounting Research Bulletin No. 45, *Long-Term Construction-Type Contracts*

AICPA Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*

AICPA Statement of Position 97-2, *Software Revenue Recognition*

AICPA Statement of Position 98-9, *Modification of SOP 97-2,* Software Recognition, *With Respect to Certain Transactions*

AICPA Statement of Position 00-2, *Accounting by Producers or Distributors of Films*

SEC Staff Accounting Bulletin No. 104, Topic 13, *Revenue Recognition*

EITF Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables"

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

EITF Issue No. 08-9, "Milestone Method of Revenue Recognition"

[1] This Issue was previously titled, "Revenue Recognition for a Single Unit of Accounting."

Introduction

1. Entities often enter into revenue arrangements that provide for multiple payment streams. For example, a service provider may receive an up-front payment upon signing a service contract with a customer and then receive additional payments as services are provided to that customer. Other examples can be more complex, such as in biotechnology and pharmaceutical research and development arrangements, because they may involve multiple deliverables, up-front payments, payments for specific services, and payments upon achievement of certain clinical milestones. If delivery of a single unit of accounting spans multiple accounting periods or deliverables, an entity needs to determine how to allocate the multiple payment streams (arrangement consideration) attributable to that unit of accounting to those accounting periods.

2. The ultimate objective of attributing arrangement consideration to a single unit of accounting is to determine when the arrangement consideration should be recognized as revenue. The fundamental criteria of revenue recognition are set forth in Concepts Statement 5, paragraph 83, which states that "recognition involves consideration of two factors, (a) being realized or realizable and (b) being earned, with sometimes one and sometimes the other being the more important consideration." Generally, revenue is considered both realizable and earned when each one of the following four conditions is met:

a. Persuasive evidence of an arrangement exists
b. The arrangement fee is fixed or determinable
c. Delivery or performance has occurred
d. Collectibility is reasonably assured.

3. Initially, this Issue was based on the premise that all of the conditions for revenue recognition have been met except for delivery or performance. In other words, the initial focus of this Issue was on when delivery or performance has occurred. After Task Force consideration of this Issue's Working Group recommendations, the focus is now on the determination of the unit of accounting for an arrangement with multiple deliverables and on several other practice issues encountered relating to revenue attribution.

4. Revenue recognition for a single unit of accounting depends on the nature of the deliverable(s) composing that unit of accounting, the corresponding revenue recognition criteria, and whether those criteria have been met. Current guidance does not explicitly address many of the issues encountered by entities in practice. As a result, entities have adopted various accounting methods to attribute revenue in arrangements that have multiple payment streams that are accounted for as a single unit of accounting. Those practice issues can generally be arranged into two categories: those impacting the determination of the unit of accounting under Issue 00-21 and those related to revenue recognition attribution methods. The following issues have been encountered in practice when entities consider the appropriate attribution model for revenue with multiple payment streams:

Unit of Accounting:

1. Whether "access or standing ready to perform" can be a deliverable
2. Whether and how contingent deliverables should impact revenue recognition
3. Whether the fair value threshold requirement of Issue 00-21 needs to be revised

Revenue Recognition Attribution Methods:

4. Whether the milestone method is an acceptable attribution method of revenue recognition
5. How the proportional performance model should be applied to a single unit of accounting composed of multiple deliverables
6. Whether recognition of revenue on a straight-line basis is acceptable when the goods or services may not be delivered ratably over the period.

Prior EITF Discussion

5. At the March 12, 2008 EITF meeting, the Task Force discussed this Issue but was not asked to reach a conclusion. The issues presented at that meeting were:

Issue 1— Whether, under certain facts and circumstances, it may be acceptable to use a multiple attribution model to account for a single unit of accounting consisting of a single deliverable

Issue 2— Whether, under certain facts and circumstances, it may be acceptable to use a multiple attribution model to account for a single unit of accounting consisting of multiple deliverables.

The Task Force requested that the FASB staff perform additional research on the transactions that give rise to the practice concern addressed by this Issue.

6. At the June 12, 2008 EITF meeting, the Task Force was informed that a Working Group had been formed to provide recommendations to the Task Force on this Issue. The Task Force discussed the initial findings of the Working Group but was not asked to reach a conclusion. The Task Force instructed the staff to continue to develop this Issue with the assistance of the Working Group for discussion at a future Task Force meeting.

7. At the September 10, 2008 EITF meeting, the Task Force discussed the results of the Working Group meetings held on July 15, 2008, and August 7, 2008, the Working Group's recommendations, and the specific practice issues that had been identified and discussed during those Working Group meetings. The Working Group made a recommendation that the Task Force not provide specific guidance on Issues 1–4 below and made specific recommendations on Issues 5 and 6 below.

8. The issues are:

Issue 1— Whether "access or standing ready to perform" can be a deliverable

Issue 2— Whether and how contingent deliverables should impact revenue recognition

Issue 3— How the proportional performance model should be applied to a single unit of accounting composed of multiple deliverables

Issue 4— Whether recognition of revenue on a straight-line basis is acceptable when the goods or services may not be delivered ratably over the period

Issue 5— Whether to modify the objective-and-reliable-evidence-of-fair-value threshold of Issue 00-21

Issue 6— Whether to issue guidance on the application of the milestone method of revenue recognition.

9. The Task Force discussed Issues 1–4 and some members noted that in order to address those issues the Task Force may need to create a definition of a deliverable, which they believed would take longer than one year. The definition of a deliverable is currently being addressed in the Board's revenue recognition project. Task Force members also noted that a change to the objective-and-reliable-evidence-of-fair-value threshold in Issue 00-21 might reduce or resolve some of those issues without requiring additional standards setting. Therefore, the Task Force tentatively agreed not to provide guidance on Issues 1–4.

10. The Task Force discussed the Working Group recommendation on Issue 5 and considered whether the objective-and-reliable-evidence-of-fair-value threshold in Issue 00-21 should be modified to allow the use of an estimated selling price for the undelivered unit of accounting in transactions in which vendor-specific objective evidence (VSOE) or acceptable third-party evidence (TPE) of the selling price for an undelivered unit of accounting are unavailable. Task Force members noted that the absence of objective and reliable evidence of fair value of the undelivered item in an arrangement is a common reason entities are unable to separate deliverables in an arrangement under Issue 00-21 and that this often results in accounting that constituents believe does not reflect the underlying economics of a transaction.

11. The Task Force discussed a model that would amend Issue 00-21 to require an entity to estimate the selling price of the undelivered unit(s) of accounting and allocate the arrangement consideration using the residual method when the entity does not have VSOE or acceptable TPE of the selling price for the undelivered unit(s) of accounting. When estimating the selling price for the undelivered unit of accounting, the Task Force discussed whether the following principle should be applied: the vendor's estimate of selling price shall be consistent with the objective of determining VSOE for the unit of accounting; that is, the price at which the entity would transact if the undelivered item(s) were sold regularly on a standalone basis. The entity must consider market conditions as well as entity-specific factors when estimating the selling price.

12. The Task Force also discussed whether Issue 00-21 should be amended to provide a principle for determining the estimated selling price of the undelivered unit of accounting and to include examples to demonstrate the application of that principle. The Task Force requested that the FASB staff update the existing examples in Issue 00-21 for discussion at the next Task Force meeting and include additional examples illustrating how an entity might develop the estimated selling price for the undelivered unit of accounting.

13. The Task Force also discussed whether the current fair value terminology in Issue 00-21 is intended to represent a fair value measurement consistent with the requirements of Statement

157. The Task Force agreed that the objective of that measurement is not a Statement 157 fair value measurement. The FASB staff notes that Statement 157, paragraph 3(a), excludes from its scope accounting pronouncements that permit measurements that are based on, or otherwise use, VSOE of fair value. Such pronouncements include Issue 00-21 and SOP 97-2, as noted in footnote 3 of Statement 157. The Task Force tentatively concluded that if a consensus on this Issue were to revise Issue 00-21, references to "fair value" should be replaced with references to "selling price" to avoid confusion with Statement 157. The Task Force noted that amendments that refer to selling price are not intended to have an impact on the determination of VSOE and TPE of fair value.

14. The Task Force discussed the Working Group recommendation that the scope of this Issue be limited to the proposed amendments to the fair value threshold of Issue 00-21 and not expanded to include other revenue recognition guidance that contains similar concepts (for example, SOP 97-2). The Task Force tentatively agreed with the Working Group recommendation but requested that the FASB staff seek user input on whether the scope of the proposed amendments to the fair value threshold of Issue 00-21 should be expanded to other revenue recognition guidance. In addition, the Task Force requested that the staff also seek user input on what, if any, additional disclosures should be required as a result of the proposed change in the fair value threshold.

15. The Task Force agreed with the FASB staff recommendation to address Issues 5 and 6 as two separate EITF Issues for discussion at a future EITF meeting since each of those issues has a separate scope. Issue 08-1 now focuses on Issue 5, that is, whether the fair value threshold requirement of Issue 00-21 needs to be revised. Further discussion of Issue 6 is now included in Issue 08-9.

Current EITF Discussion

16. At the November 13, 2008 EITF meeting, the Task Force discussed the following issues related to the fair value threshold of Issue 00-21 including consideration of comments received on this Issue:

Issue 1—Whether an entity should be allowed to use its best estimate of selling price for the undelivered item(s) in an arrangement when the deliverable(s) in that arrangement is within the scope of SOP 97-2

Issue 2— Whether an entity should be allowed to use a method other than the residual method of allocating arrangement consideration when the selling price of the undelivered unit(s) of accounting is based on the vendor's best estimate

Issue 3— Whether the Task Force agrees with the FASB staff's modifications to the application guidance of Issue 00-21

Issue 4— Whether the Task Force agrees with the FASB staff's modifications to the examples included in Exhibit 00-21B of the draft abstract.

The Task Force also considered a draft abstract prepared by the FASB staff marked to show proposed amendments to Issue 00-21 resulting from the Task Force's tentative conclusions reached at the September 10, 2008 EITF meeting.

17. On Issue 1, the Task Force discussed two comment letters (from entities that sell software-enabled devices accounted for under SOP 97-2) that recommended that the scope of Issue 08-1 be expanded to include transactions within the scope of SOP 97-2. The Task Force also considered the input received by the FASB staff from users of financial statements of software entities. Those users stated that they believed that contracts accounted for under SOP 97-2 should not require or allow deliverables to be accounted for as separate units of accounting based on an estimate of the selling price of undelivered elements when the company did not have VSOE. The Task Force considered whether to (a) expand the scope of Issue 08-1 to include transactions accounted for under SOP 97-2, (b) expand the scope of Issue 08-1 to specifically include revenue related to software-enabled devices, or (c) not expand the scope of Issue 08-1 but recommend a separate project to evaluate the scope of SOP 97-2 and the accounting for revenue arrangements with multiple deliverables within the scope of SOP 97-2. The Task Force reached a consensus-for-exposure that the scope of Issue 08-1 should be the same as the scope of Issue 00-21 and that the scope not be expanded to include deliverables within the scope of SOP 97-2. The Task Force also recommended to the FASB Chairman that a separate Issue be added to the EITF agenda to consider changes to the accounting for multiple element arrangements under SOP 97-2. The FASB Chairman was present at the meeting and after considering the input from the Task Force and Board Members, decided to add the project to the EITF agenda. The Task Force noted that it would be preferable if any amendments arising from future Task Force deliberations on SOP 97-2 were to have an effective date that is consistent with Issue 08-1.

18. On Issue 2, the Task Force reached a consensus-for-exposure that an entity is required to use the residual method of allocating arrangement consideration when the selling price of the undelivered unit(s) of accounting is based on the vendor's best estimate. However, the amount allocated to the delivered unit(s) of accounting as a result of applying this methodology shall not exceed the selling price of the delivered unit(s) of accounting based on VSOE or TPE, if known.

19. On Issues 3 and 4, the Task Force reached a consensus-for-exposure that the draft abstract be modified to include guidance on disclosure, transition, and effective date, and to provide clarifying language to paragraph 17 of the draft abstract.

20. Appendix 08-1A reflects amendments to Issue 00-21 as a result of the above decisions (additions are <u>underscored</u> and deletions are ~~struck through~~).

Disclosure

21. The Task Force reached a consensus-for-exposure that a vendor shall disclose both qualitative and quantitative information on an aggregated basis that enables users of its financial statements to understand the inputs and methodologies used to develop the estimated selling price when neither VSOE nor TPE of selling price exists. The Task Force also reached a consensus-for-exposure that information related to individually significant arrangements should be disclosed separately.

22. The Task Force reached a consensus-for-exposure that a vendor shall separately disclose, after the effective date of Issue 08-1, the amount of its revenue recognized each reporting period under Issue 00-21 and Issue 08-1 until the amount of revenue reported under Issue 00-21 is no longer material to the entity. A vendor shall also separately disclose the amount of deferred revenue as of the end of the period and recognized in accordance with Issue 00-21 and Issue 08-1.

Effective Date and Transition

23. The Task Force reached a consensus-for-exposure that vendors shall apply the measurement and allocation guidance in this Issue to revenue arrangements entered into or materially modified in fiscal years beginning on or after December 15, 2009. This Issue shall be applied prospectively. Earlier application of the consensus on this Issue is permitted as of the beginning of a vendor's fiscal year.

Board Ratification

24. At the November 24, 2008 meeting, the Board ratified the consensus-for-exposure reached by the Task Force in this Issue and approved the issuance of a draft abstract for a public comment period.

Status

25. The draft abstract will be posted to the FASB website after November 30, 2008. Comments on the draft abstract are due by January 30, 2009. Further discussion is expected at a future meeting.

Exhibit 08-1A

EITF ABSTRACTS (DRAFT*)

Issue No. 08-1~~00-21~~

Title: Revenue Arrangements with Multiple Deliverables

Dates Discussed: ~~July 19–20, 2000; September 20–21, 2000; November 15–16, 2000; January 17–18, 2001; April 18–19, 2001; July 19, 2001; November 14–15, 2001; January 23–24, 2002; March 20–21, 2002; June 19–20, 2002; September 11–12, 2002; October 25, 2002; November 21, 2002; January 23, 2003; March 20, 2003; May 15, 2003,~~ March 12, 2008; June 12, 2008; September 10, 2008, November 13, 2008; [March 18–19, 2009]

References: FASB Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*

FASB Statement No. 13, *Accounting for Leases*

FASB Statement No. 45, *Accounting for Franchise Fee Revenue*

FASB Statement No. 48, *Revenue Recognition When Right of Return Exists*

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

FASB Statement No. 68, *Research and Development Arrangements*

FASB Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*

FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*

FASB Technical Bulletin No. 90-1, *Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts*

FASB Concepts Statement No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*

APB Opinion No. 20, *Accounting Changes*

AICPA Accounting Research Bulletin No. 45, *Long-Term Construction-Type Contracts*

AICPA Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*

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* **This draft abstract is being exposed for a public comment period that will end on January 30, 2009.**

AICPA Statement of Position 97-2, *Software Revenue Recognition*

AICPA Statement of Position 98-9, *Modification of SOP 97-2,* Software Revenue Recognition, *With Respect to Certain Transactions*

AICPA Statement of Position 00-2, *Accounting by Producers or Distributors of Films*

~~SEC Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements*~~

~~SEC Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements—Frequently Asked Questions and Answers*~~

SEC Staff Accounting Bulletin 104, Topic 13, *Revenue Recognition*

ISSUE

1. ~~Many companies offer multiple solutions to~~ To meet their customers' needs, ~~.~~ vendors often provide ~~Those solutions may involve the delivery or performance of~~ multiple products, services, ~~or~~ rights to use assets, or any combination thereof (hereinafter referred to as "deliverables"). These vendors transfer the deliverables to the customer and performance may occur at different points in time or over different periods of time, and the customer's ~~. In some cases, the arrangements include initial installation, initiation, or activation services and involve consideration in the form of a fixed fee or a fixed fee coupled with a continuing payment stream. The continuing payment stream generally corresponds to the continuing performance, and the amount of the~~ payments for these deliverables may be fixed, variable ~~based on future performance~~, or a combination of fixed and variable ~~payment amounts~~.

2. This Issue addresses ~~certain~~ some aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. Specifically, this Issue addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. In applying this Issue, separate contracts with the same entity or related parties that are entered into at or near the same time are presumed to have been negotiated as a package and should, therefore, be evaluated as a single arrangement in considering whether there are one or more units of accounting. That presumption may be overcome if there is sufficient evidence to the contrary. This Issue also addresses how arrangement consideration should be measured and allocated to the separate units of accounting in the arrangement.

3. This Issue does not address when the criteria for revenue recognition are met or provide revenue recognition guidance~~ on the appropriate revenue recognition convention~~ for a given unit of accounting. For example, this Issue does not address when revenue attributable to a unit of accounting should be recognized based on proportional performance. The timing of revenue recognition for a given unit of accounting ~~will~~ depends on the nature of the deliverable(s) composing that unit of accounting ~~(and the corresponding revenue recognition convention)~~ and on whether the applicable criteria ~~general~~ ~~conditions~~ for revenue recognition have been met.

4. This Issue applies to all deliverables ~~(that is, products, services, or rights to use assets)~~ within contractually binding arrangements (whether written, oral, or implied, and hereinafter referred to as "arrangements") in all industries under which a vendor will perform multiple revenue-generating activities, except as follows:

a. A multiple-deliverable arrangement or a deliverable(s) in a multiple-deliverable arrangement may be within the scope of higher-level authoritative literature.[1] That higher-level authoritative literature (including, but not limited to, Statements 13, 45, and 66; Interpretation 45; Technical Bulletin 90-1; and SOPs 81-1, 97-2, and 00-2) (referred to hereinafter as "higher-level literature") may provide guidance with respect to whether and/or how to allocate consideration of a multiple-deliverable arrangement. The following describes the three categories into which that higher-level literature falls and the application of this Issue or the higher-level literature in determining separate units of accounting and allocating arrangement consideration:

    i. If higher-level literature provides guidance regarding the determination of separate units of accounting and how to allocate arrangement consideration to those separate units of accounting, the arrangement or the deliverable(s) in the arrangement that is within the scope of that higher-level literature should be accounted for in accordance with the relevant provisions of that literature rather than the guidance in this Issue.

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[1] Whether a deliverable(s) is within the scope of higher-level authoritative literature is determined by the scope provisions of that literature, without regard to the order of delivery of that item in the arrangement. The term *higher-level literature* refers to categories (a) and (b) of the generally accepted accounting principles (GAAP) hierarchy as defined in Statement 162~~AICPA Statement on Auditing Standards No. 69, *The Meaning of "Present Fairly in Conformity With Generally Accepted Accounting Principles" in the Independent Auditor's Report*. EITF consensuses represent category (c) of the hierarchy~~.

ii. If higher-level literature provides guidance requiring separation of deliverables within the scope of higher-level literature from deliverables not within the scope of higher-level literature, but does not specify how to allocate arrangement consideration to each separate unit of accounting, such allocation should be based ~~performed~~ on the ~~a~~ relative selling price of the deliverable(s) ~~fair value basis~~ using the entity's best estimate of the selling price ~~fair value~~ of the deliverable(s) within the scope of higher-level literature and the deliverable(s) not within the scope of higher-level literature.[2,3] Subsequent ~~accounting (~~identification of separate units of accounting and allocation of arrangement consideration ~~value thereto) for the value allocated~~ to the deliverable(s) not subject to higher-level literature would be governed by the provisions of this Issue.

iii. If higher-level literature provides no guidance regarding the separation of the deliverables within the scope of higher-level literature from those deliverables that are not or the allocation of arrangement consideration to deliverables within the scope of the higher-level literature and to those that are not, then the guidance in this Issue should be

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[2] ~~Solely f~~For purposes of the allocation between deliverables within the scope of higher-level literature and deliverables not within the scope of higher-level literature, ~~an entity's best estimate of fair value is not limited to vendor-specific objective evidence of fair value or third-party evidence of fair value, as those concepts are~~ selling price shall be determined using the guidance as discussed in paragraphs 16 and 17 of this Issue. The use of a vendor's best estimate of selling price shall not be limited to the undelivered item(s) for purposes of applying this paragraph.

[3] For example, leased assets are required to be accounted for separately under the guidance of Statement 13. Consider an arrangement that includes the lease of equipment under an operating lease, the maintenance of the leased equipment throughout the lease term (executory cost), and the sale of additional equipment unrelated to the leased equipment. The arrangement consideration should be allocated between the Statement 13 deliverables and the non-Statement 13 deliverables based on their ~~a~~ relative selling price~~fair value basis~~ using the entity's best estimate of ~~fair value~~ selling price of the Statement 13 and non-Statement 13 deliverables. (Although Statement 13 does not provide guidance regarding the accounting for executory costs, it does provide guidance regarding the allocation of arrangement consideration between the lease and the executory cost elements of an arrangement. Therefore, this example refers to the leased equipment and the related maintenance as Statement 13 deliverables.) The guidance in Statement 13 would then be applied to separate the maintenance from the leased equipment and to allocate the related arrangement consideration to those two deliverables. This Issue would be applied to further separate any non-Statement 13 deliverables and to allocate the related arrangement consideration.

followed for purposes of such separation and allocation.[4] In such circumstances, it is possible that a deliverable subject to the guidance of higher-level literature does not meet the criteria in paragraph 9 of this Issue to be considered a separate unit of accounting. In that event, the arrangement consideration allocable to such deliverable should be combined with the amount allocable to the other applicable undelivered item(s) within the arrangement. The appropriate recognition of revenue should then be determined for those combined deliverables as a single unit of accounting.

b. Arrangements that include vendor offers to a customer for either (1) free or discounted products or services that will be delivered (either by the vendor or by another unrelated entity) at a future date if the customer completes a specified cumulative level of revenue transactions with the vendor or remains a customer of the vendor for a specified time period or (2) a rebate or refund of a determinable cash amount if the customer completes a specified cumulative level of revenue transactions with the vendor or remains a customer of the vendor for a specified time period, are excluded from the scope of this Issue. For a further discussion on these types of arrangements, see Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)." Additionally, arrangements involving the sale of award credits by broad-based loyalty program operators are excluded from the scope of this Issue.

[4] For example, SOP 81-1 provides separation and allocation guidance (segmentation provisions) for deliverables within its scope. However, SOP 81-1 does not provide separation and allocation guidance between SOP 81-1 deliverables and non-SOP 81-1 deliverables. Consider an arrangement that includes designing complex electronic equipment, manufacturing complex electronic equipment (both SOP 81-1 deliverables), and providing the service of running the equipment for a fixed period of time once the equipment is designed, manufactured, and placed in service (a non-SOP 81-1 deliverable). This Issue would be applied to identify separate units of accounting and to allocate arrangement consideration to those separate units of accounting. If applying the guidance in this Issue results in the separation of the design and manufacture of the equipment from the service of running the equipment, the segmentation provisions of SOP 81-1 would be used to determine if it is appropriate to further segment the design deliverables from the manufacture deliverables in accordance with its segmentation provisions. If this Issue prohibits separation of the SOP 81-1 deliverables from the non-SOP 81-1 deliverables, then the amounts otherwise allocable to the design and manufacture deliverables and to the service of running the equipment should be combined. The appropriate recognition of revenue should then be determined for those combined deliverables as a single unit of accounting.

5. The issues are:

Issue 1—How to determine whether an arrangement with multiple deliverables consists of more than one unit of accounting

Issue 2—If an arrangement consists of more than one unit of accounting, how the arrangement consideration should be allocated among the separate units of accounting

Issue 3—What effect, if any, certain customer rights due to vendor nonperformance have on the measurement of arrangement consideration and/or the allocation of consideration to the delivered unit(s) of accounting

Issue 4—How to account for direct costs incurred related to an arrangement that (a) are not associated with a specific deliverable or (b) are associated with a specific deliverable but that deliverable is required to be combined with another deliverable (or other deliverables)

Issue 5(a)— The impact, if any, of a customer's ability to cancel a contract and incur a cancellation penalty on the measurement of arrangement consideration

Issue 5(b)—The impact, if any, of consideration that varies as a result of future *customer* actions on the measurement and/or allocation of arrangement consideration

Issue 5(c)—The impact, if any, of consideration that varies as a result of future *vendor* actions on the measurement and/or allocation of arrangement consideration

Issue 6—The impact of a vendor's intent not to enforce its contractual rights in the event of customer cancellation on the measurement and/or allocation of arrangement consideration.

EITF DISCUSSION

6. In an arrangement with multiple deliverables, the Task Force reached a consensus that the principles in paragraph 7 and application guidance in paragraphs 8–18~~17~~ should be used to determine (a) how the arrangement consideration should be measured, (b) whether the

arrangement should be divided into separate units of accounting, and (c) how the arrangement consideration should be allocated among the separate units of accounting. Examples illustrating the application of the principles and application guidance in this Issue are included in Exhibit ~~00-21~~08-1B.

Principles

7. The principles applicable to this Issue are:

- Revenue arrangements with multiple deliverables should be divided into separate units of accounting if the deliverables in the arrangement meet the criteria in paragraph 9.

- Arrangement consideration should be allocated among the separate units of accounting based on their relative selling prices ~~fair values~~ (or as otherwise provided in paragraphs 12 and 13). The amount allocated to the delivered ~~item~~unit(s) of accounting is limited as discussed in paragraphs 12 and 14.

- Applicable revenue recognition criteria should be considered separately for separate units of accounting.

Application Guidance

Units of Accounting (Issue 1)

8. A vendor should evaluate all deliverables in an arrangement to determine whether they represent separate units of accounting. That evaluation must be performed at the inception of the arrangement and as each item in the arrangement is delivered.

9. In an arrangement with multiple deliverables, the delivered item(s) should be considered a separate unit of accounting if both ~~all~~ of the following criteria are met:

a. The delivered item(s) has value to the customer on a standalone basis. That item(s) has value on a standalone basis if it is sold separately by any vendor or the customer could resell the delivered item(s) on a standalone basis. In the context of a customer's ability to resell the

delivered item(s), the Task Force observed that this criterion does not require the existence of an observable market for that deliverable(s).

b. ~~There is objective and reliable evidence of the fair value of the undelivered item(s).~~

~~c.~~ If the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the vendor.

Refer to the flowchart in Exhibit 08-1A~~00-21A~~ for an illustration of the above criteria. The criteria for dividing an arrangement into separate units of accounting should be applied consistently to arrangements with similar characteristics and in similar circumstances.

10. ~~The arrangement consideration allocable a~~ A delivered item(s) that does not qualify as a separate unit of accounting within the arrangement should be combined with the ~~amount allocable to the~~ other ~~applicable~~ undelivered item(s) within the arrangement. The allocation of arrangement consideration and the ~~appropriate~~ recognition of revenue should then be determined for those combined deliverables as a single unit of accounting.

Measurement and Allocation of Arrangement Consideration (Issues 2, 3, 5(a), 5(b), 5(c), and 6)

11. The amount of total arrangement consideration must be fixed or determinable other than with respect to the impact of (a) any refund rights or other concessions (hereinafter collectively referred to as "refund rights") to which the customer may be entitled or (b) performance bonuses to which the vendor may be entitled.

12. If there is vendor specific objective ~~and reliable~~ evidence (VSOE) or third-party evidence (TPE) of ~~fair value~~ selling price (as discussed in paragraph 16) for all units of accounting in an arrangement, the arrangement consideration should be allocated to the separate units of accounting based on their relative ~~fair value~~ selling price (the relative ~~fair value~~ selling price method), except as specified in paragraph 13. However, in the absence of VSOE or TPE of selling price for all units of accounting in the arrangement, ~~there may be cases in which there is objective and reliable evidence of the fair value(s) of the undelivered item(s) in an arrangement but no such evidence for the delivered item(s). In those cases,~~ the residual method should be used

to allocate the arrangement consideration. Under the residual method, the amount of consideration allocated to the delivered unit(s) of accounting ~~item(s)~~ equals the total arrangement consideration less the aggregate ~~fair value~~ selling price of the undelivered unit(s) of accounting ~~item(s)~~ (as discussed in paragraph 17). When allocating the arrangement consideration using the vendor's best estimate of selling price for the undelivered unit(s) of accounting, the amount allocated to the delivered unit(s) of accounting shall not exceed VSOE or TPE of the delivered unit(s) of accounting, if VSOE or TPE are known for the delivered unit(s) of accounting. The "reverse" residual method (that is, using a residual method to determine the ~~fair value~~ selling price of an undelivered unit(s) of accounting ~~item~~) is not an acceptable method of allocating arrangement consideration to the separate units of accounting, except as described in paragraph 13.

13. To the extent that any separate unit of accounting in the arrangement ~~(including a delivered item)~~ is required under GAAP to be recorded at fair value (and marked to market each reporting period thereafter), the amount allocated to that unit of accounting should be its fair value. Under those circumstances, the remainder of arrangement consideration should be allocated to the other units of accounting in accordance with the requirements in paragraph 12.

14. The amount allocable to ~~a~~ the delivered unit(s) of accounting ~~item(s)~~ is limited to the amount that is *not* contingent upon the delivery of additional items or meeting other specified performance conditions (the noncontingent amount). That is, the amount allocable to the delivered unit(s) of accounting ~~item(s)~~ is the lesser of the amount otherwise allocable in accordance with paragraphs 12 and 13, above, or the noncontingent amount. Additionally, although Statement 48 may impact the amount of revenue recognized, the allocated amount is not adjusted for the impact of a general right of return pursuant to that Statement.

15. The Task Force reached a consensus that the measurement of revenue per period should be limited to the measurement that results from assuming that cancellation of the arrangement will not occur. The Task Force observed that the amount recorded as an asset for the excess of revenue recognized under the arrangement over the amount of cash or other consideration received from the customer since the inception of the arrangement should not exceed all amounts to which the vendor is legally entitled, including cancellation fees (in the event of customer

cancellation). However, the Task Force further observed that whether a vendor intends to enforce its contractual rights in the event of customer cancellation should be considered in determining the extent to which an asset should be recorded.

16. When applying the relative selling price method of allocation, the selling price for each unit of accounting shall be determined using VSOE, if available, otherwise TPE. ~~Contractually stated prices for individual products and/or services in an arrangement with multiple deliverables should *not* be presumed to be representative of fair value~~ selling price. ~~The best evidence of fair value is the price of a deliverable when it is regularly sold on a standalone basis. Fair value evidence often consists of specific or VSOE of fair value.~~ ~~As discussed in paragraph 10 of SOP 97-2,~~ VSOE of selling price ~~fair value~~ is limited to (a) the price charged for a deliverable when it is sold separately or (b), for a deliverable not yet being sold separately, the price established by management having the relevant authority (it must be probable that the price, once established, will not change before the separate introduction of the deliverable into the marketplace). ~~(~~The guidance of paragraph 10 of SOP 97-2 shall be applied by analogy in further assessing whether VSOE of selling price exists for a unit of accounting.~~)~~ ~~The use of VSOE of fair value is preferable in all circumstances in which it is available. Third-party evidence of fair value~~ TPE of selling price is the ~~(for example,~~ price~~s~~ of the vendor's or any competitor's largely interchangeable products or services in standalone sales to similarly situated customers~~) is acceptable if VSOE of fair value is not available~~. Contractually stated prices for individual products and /or services in an arrangement with multiple deliverables should *not* be presumed to be representative of VSOE or TPE of selling price.

17. When applying the residual method of allocation, the selling price for the undelivered unit(s) of accounting shall be determined using VSOE, if it exists, otherwise using TPE. If neither VSOE nor TPE exists, the vendor shall use its best estimate of the selling price for the undelivered unit(s) of accounting. The vendor's best estimate of selling price shall be consistent with the objective of determining VSOE for the unit of accounting; that is, the price at which the vendor would transact if the undelivered unit of accounting were sold by the vendor regularly on a standalone basis. The vendor shall consider market conditions as well as entity-specific factors when estimating the selling price.

Accounting for Direct Costs in an Arrangement with Multiple Deliverables (Issue 4)

18~~17~~. The Task Force agreed not to provide guidance on Issue 4 due to the broad, general nature of the question and its applicability beyond arrangements involving multiple deliverables. As such, this Issue does not address the allocation of direct costs in an arrangement.

Disclosure

19~~18~~. A vendor should disclose (a) its accounting policy for recognition of revenue from multiple-deliverable arrangements (for example, whether deliverables are separable into units of accounting) and (b) the description and nature of such arrangements, including performance-, cancellation-, termination-, or refund-type provisions.

20. A vendor shall also disclose both qualitative and quantitative information on an aggregated basis that enables users of its financial statements to understand the inputs and methodologies used to develop estimated selling price when neither VSOE nor TPE of selling price exists. Information related to individually significant arrangements should be separately disclosed.

21. A vendor shall separately disclose the amount of its revenue recognized each reporting period under Issue 00-21 and Issue 08-1 until the amount of revenue reported under Issue 00-21 is no longer material to the entity. A vendor shall also separately disclose the amount of deferred revenue as of the end of the period which is recognized in accordance with Issue 00-21 and Issue 08-1.

Transition

22~~19~~. This Issue shall be effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after December 15, 2009. This Issue shall be applied on a prospective basis. Earlier application is permitted as of the beginning of a fiscal year. ~~The guidance in this Issue is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. Alternatively, entities may elect to report the change in accounting as a cumulative-effect adjustment in accordance with Opinion 20 and Statement 3. If so elected, disclosure should be made in periods subsequent to the date of initial application of this consensus of the amount of recognized revenue that was previously included in the~~

~~cumulative effect adjustment. Early application of this consensus is permitted.~~

~~20. The Task Force reached its consensus on this Issue subject to certain clarifications to be made with respect to the scope provisions in paragraph 4(a). At the May 15, 2003 meeting, the Task Force finalized the scope of those provisions. For an enterprise that adopted the consensuses in this Issue prior to the May 15, 2003 meeting, the final guidance in paragraph 4(a) should be treated as a new consensus subject to the transition and effective date provisions in Topic No. D-1, "Implications and Implementation of an EITF Consensus."~~

~~21. The SEC Observer commented that the SEC staff would review and revise SAB 101 and the SAB 101 FAQ, as necessary, to be consistent with the consensus in this Issue. In the interim, however, to the extent that the guidance in SAB 101 (and the SAB 101 FAQ) and Issue 00-21 conflict, the guidance in this Issue should be followed.~~

Amendments to Other Literature

23. Issue 00-21 is superseded by this Issue.

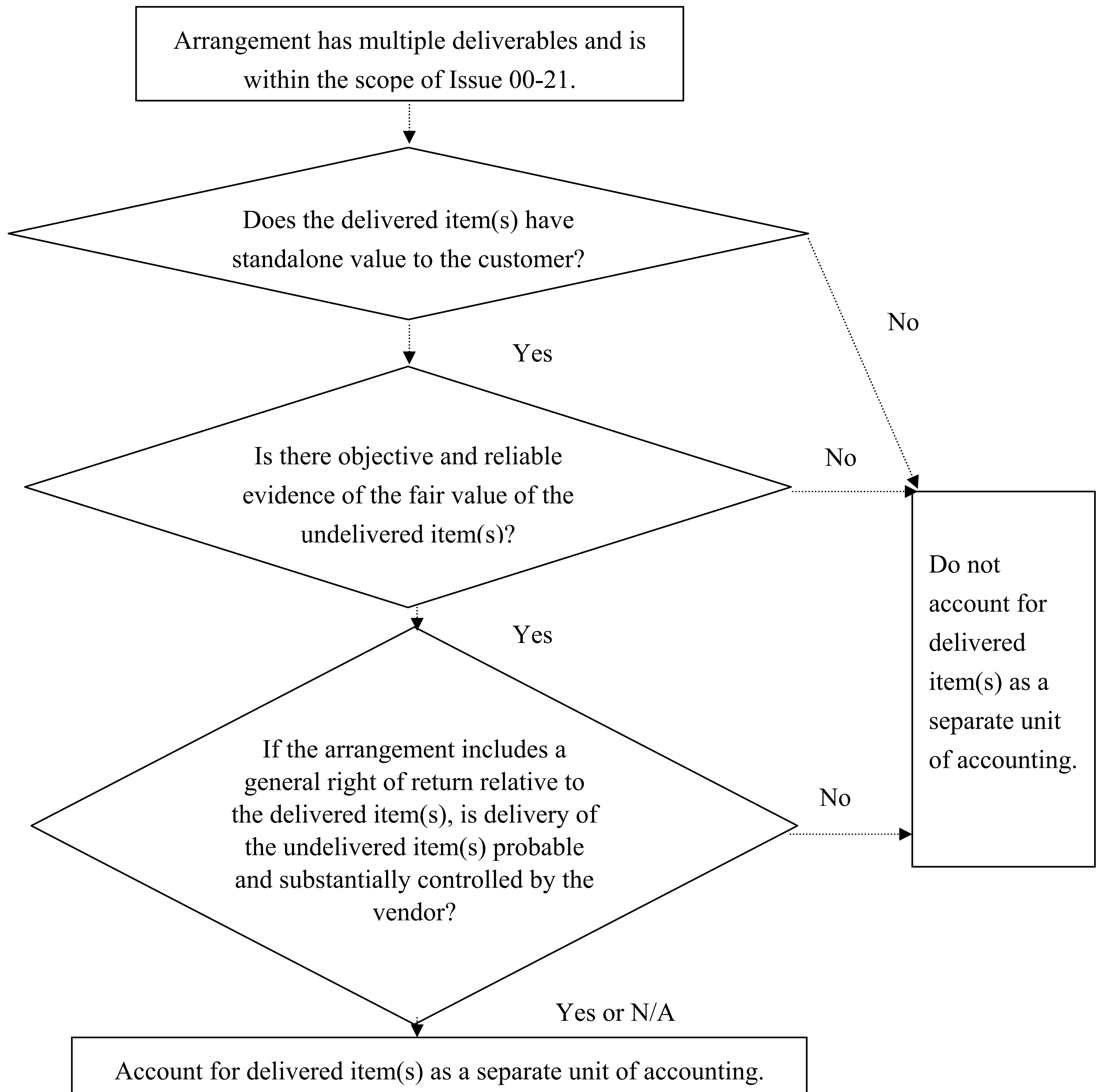
STATUS

24. No further EITF discussion is planned.

Exhibit 00-21A

Exhibit 00-21A will be deleted and replaced with Exhibit 08-1A.

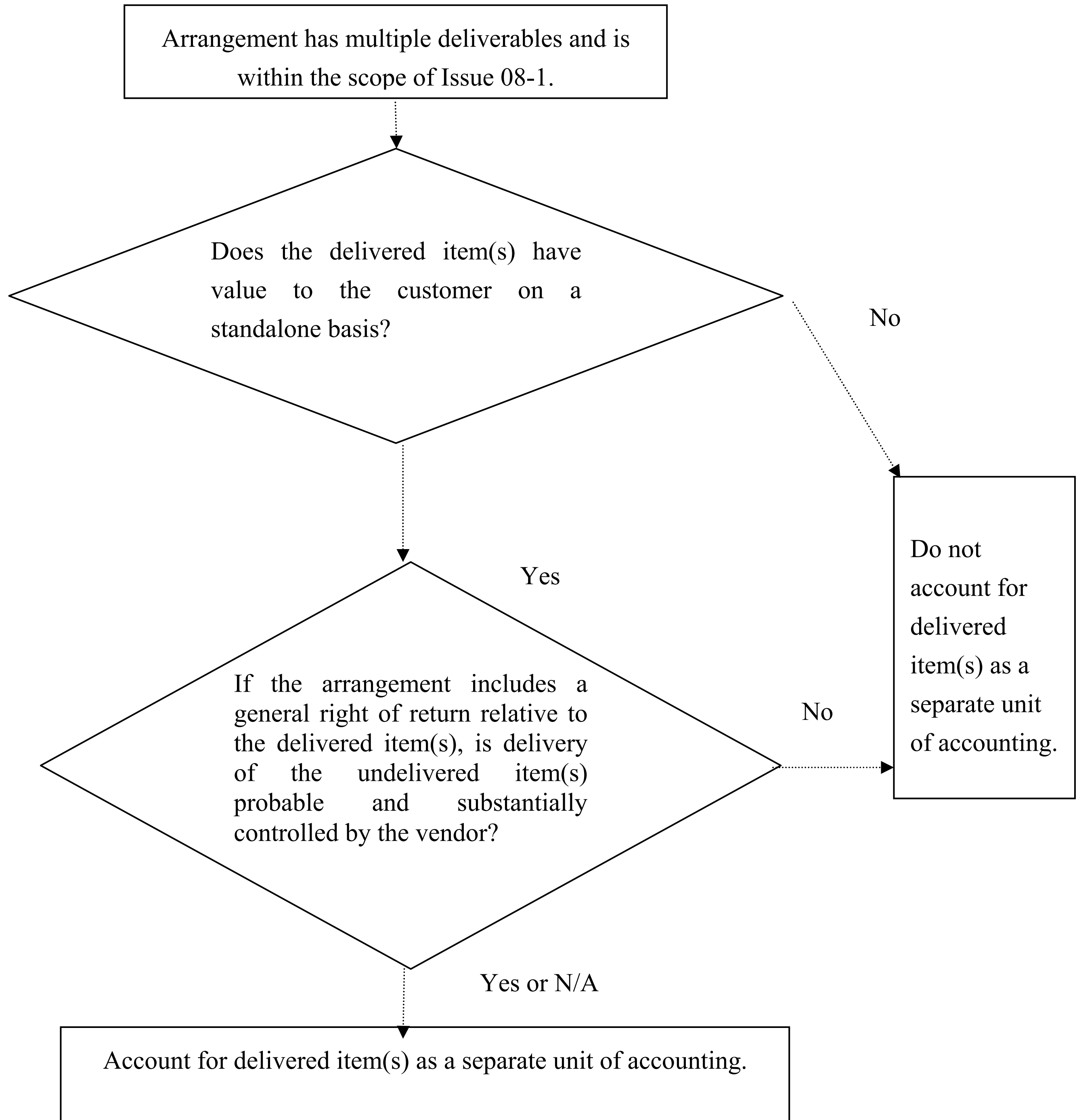
DETERMINING SEPARATE UNITS OF ACCOUNTING[5]



[5] This diagram represents an overview of the provisions of this Issue with respect to determining the separate units of accounting in an arrangement and should, therefore, be reviewed in conjunction with the entire consensus.

Exhibit 08-1A

DETERMINING SEPARATE UNITS OF ACCOUNTING[5]



[5] This diagram represents an overview of the provisions of this Issue with respect to determining the separate units of accounting in an arrangement and should, therefore, be reviewed in conjunction with the entire consensus.

Exhibit 08-1B~~00-21B~~

EXAMPLES OF THE APPLICATION OF THE EITF CONSENSUS ON ISSUE 08-1~~00-21~~

Note: The examples below provide guidance *only* with respect to determining whether a multiple-deliverable revenue arrangement contains more than one unit of accounting and, if so, how to measure and allocate the arrangement consideration to the separate units of accounting. As discussed in paragraph 3, above, this Issue (including the examples below) does *not* address (for any unit of accounting) when the criteria for revenue recognition are met or provide revenue recognition guidance ~~on the appropriate revenue recognition convention~~.

Example 1—Cellular Telephone Contract

CellularCo runs a promotion in which new customers who sign a two-year contract receive a "free" phone. ~~The contract requires the customer to pay a cancellation fee of $300 if the customer cancels the contract.~~ There is a one-time "activation fee" of $50 and a monthly fee of $40 for the ongoing service. The same monthly fee is charged by CellularCo regardless of whether a "free" phone is provided. The phone costs CellularCo $100. Further, assume that CellularCo frequently sells the phone separately for $120. CellularCo is not required to refund any portion of the fees paid for any reason. CellularCo is a sufficiently capitalized, experienced, and profitable business and has no reason to believe that the two-year service requirement will not be met. CellularCo is considering whether (a) the phone and (b) the phone service (that is, the airtime) are separable deliverables in the arrangement. The activation fee is simply considered additional arrangement consideration to be allocated. The phone is ~~and activation are~~ delivered first, followed by the phone service (which is provided over the two-year period of the arrangement).

Evaluation: The first condition for separation is met for the phone. That is, the phone has value on a standalone basis because it is sold separately by CellularCo. The second condition is also met because ~~for separation also is met because objective and reliable evidence of fair value exists for the phone service. Finally,~~ there are no general rights of return in this arrangement. Therefore, the phone and the phone service should be accounted for as separate units of accounting.

The total arrangement consideration is $1,010. The ~~fair value~~ selling price of the phone service is $960 ($40 × 24 months), the price charged by CellularCo when sold separately. The ~~fair value~~ selling price of the phone is $120, the price of the phone when sold separately by CellularCo. Without considering whether any portion of the amount allocable to the phone is contingent upon CellularCo's providing the phone service, CellularCo would allocate the arrangement consideration on a relative ~~fair value~~ selling price basis because CellularCo has either VSOE or TPE of selling price for all deliverables in the arrangement. That allocation would be as follows: $112.22 [$1,010 × ($120 ÷ [$120 + $960])] to the phone and $897.78 [$1,010 × ($960 ÷ [$120 + $960])] to the phone service. However, because a "free" phone is provided in the arrangement and the customer has no obligation to CellularCo if phone service is not provided, the amount of arrangement consideration allocated to the phone is limited to the noncontingent fee of $50~~$62.22 (assuming the customer has paid the nonrefundable activation fee) is contingent upon CellularCo's providing the phone service~~. Therefore, the amount allocable to the phone service is increased to $960 ($897.78 + ($112.22 – $50))~~ is limited to $50 ($112.22 – $62.22), and the amount allocable to the phone service is increased to $960~~ and only $50 is allocated to the phone.

Example 2—Can Manufacturing Equipment

Company C sells high-speed aerosol can manufacturing equipment. Company C sells a complete manufacturing process, which consists of Equipment X, Y, and Z. Company C does not sell Equipment X, Y, and Z separately; however, other companies do sell the same equipment separately and there is a market for used equipment. Installation is not considered in this example.

Company C is evaluating whether Equipment X, Y, and Z may be accounted for separately ~~revenue recognition~~ under the following scenario:

> Company C delivered Equipment X and Z on March 27, but did not deliver Equipment Y until April 6. Without Equipment Y, the customer does not have use of Equipment X and Z. However, there is an active market for ~~new~~ Equipment X, Y, and Z on a separate basis, as the equipment is often bought separately from other vendors as replacements become necessary. The contract provides that if all pieces of equipment are not delivered, the customer may

return Equipment X and Z and have no liability to Company C. The contract requires delivery of all equipment prior to June 1, and Company C has sufficient production capacity and inventory to deliver all of the equipment prior to that contractual deadline.

Evaluation: The first condition for separation is met for Equipment X and Z. Equipment X and Z have value on a standalone basis because they are sold separately by other vendors. The second condition ~~for separation~~ is also met because ~~sufficient objective and reliable evidence of the fair value exists for Equipment Y based on the prices charged for the separate pieces of equipment by other unrelated vendors. Finally,~~ there is no general right of return in the arrangement. Therefore, Equipment X, Y, and Z should be accounted for as separate units of accounting. However, even though accounted for as separate units of accounting, the arrangement consideration allocable to both Equipment X and Z is $0 because the full amount otherwise allocable to those separate deliverables is contingent upon the delivery of Equipment Y.

Example 3—Standard Equipment and Installation

Company E is an experienced manufacturer of equipment used in the construction industry. Company E's products range from small to large individual pieces of automated machinery to complex systems containing numerous components. Unit selling prices range from $200,000 to $2.5 million. Unit selling prices are quoted inclusive of installation.

Each equipment model has standard performance specifications and is not otherwise customized for the specific needs of a buyer. Company E extensively tests the equipment against those specifications prior to shipment. The installation process does not involve changes to the features or capabilities of the equipment and does not require proprietary information about the equipment in order for the installed equipment to perform to specifications.

While there are others in the industry with sufficient knowledge about the installation process for the equipment, as a practical matter, most purchasers engage Company E to perform the installation services. However, some customers choose not to have the equipment installation performed by Company E for various reasons (for example, their proprietary use of the equipment, their preference that installation be performed by their own employees or other

vendors with whom the customers have established relationships, or for their own convenience). If a potential customer wishes to purchase equipment without installation, Company E will not reduce the quoted selling price for the commensurate value of the installation. If a customer chooses to purchase equipment without installation, there is only one deliverable.

Assume that a customer enters into an arrangement to purchase equipment with a price of $200,000 (the price at which Company E regularly sells the equipment without installation) from Company E and chooses to have Company E perform the installation for that equipment. The customer is obligated to pay Company E the arrangement consideration upon delivery of the equipment. The price of the installation service when it is performed by vendors other than Company E is $8,000 (TPE of selling price). There are no refund rights (general or otherwise) in the arrangement. Company E is considering whether (a) the equipment and (b) the installation service are separable units of accounting in the arrangement.

Evaluation: The first condition for separation is met for the equipment. The equipment has standalone value as it is sometimes sold separately ~~by Company E~~. The second condition for separation is also met as there~~. Objective and reliable evidence of the fair value for the installation exists. There is sufficient evidence of the fair value of the installation on a separate component basis (as evidenced by the amount charged by independent third parties). Finally, there~~ are no general refund rights. Therefore, the equipment and the installation are considered separate units of accounting in the arrangement.

Regardless of whether the installation is performed, the total arrangement consideration is $200,000. Because Company E has either VSOE or TPE of selling price for all units of accounting in the arrangement, ~~Therefore, consideration in the arrangement should be allocated on a relative fair value basis. In this case,~~ the arrangement consideration of $200,000 should be allocated to the separate units of accounting using the ~~based on their~~ relative ~~fair value~~ selling price method. Thus, allocation of the arrangement consideration would be $192,308 [$200,000 × ($200,000 ÷ [$200,000 + $8,000])] to the equipment and $7,692 [$200,000 × ($8,000 ÷ [$200,000 + $8,000])] to the installation service. Additionally, none of the amount allocable to the equipment is contingent upon performing the installation.

Example 4—Automobiles Sold with Lifetime Maintenance Services

Company A is an established auto dealer. Company A's service center provides all scheduled maintenance services (including oil changes) at no additional charge (other than for parts) for any customer who purchases an automobile from Company A for the period that the customer owns the automobile. The customer may also choose to have the maintenance services performed by others without affecting the vehicle warranty, but most customers utilize Company A's maintenance services unless they move to a distant location. Neither Company A nor any other dealer sells the automobile without the lifetime maintenance services. However, Company A sells maintenance services separately to customers who did not purchase their vehicles from Company A. The automobiles are sold subject to a limited warranty and there are no refund rights in the arrangement. Customers are obligated to Company A for all arrangement consideration upon taking delivery of the automobile. Since lifetime maintenance services are not ~~sold~~ separately priced when a customer purchases an automobile from ~~by~~ Company A, they are not within the scope of Technical Bulletin 90-1.

Evaluation: The first condition for separation is met for the automobile because, even though the automobile is not sold separately by any vendor, it is considered to have standalone value because the customer could resell the automobile on a standalone basis. The second condition for separation also is met as there~~. There is sufficient evidence of the fair value of the maintenance services on a separate component basis (as evidenced by the amount charged on a standalone basis by Company A for maintenance services and data available from which to estimate the volume and types of maintenance services provided during a typical customer's ownership of the vehicle). Finally, there~~ are no refund rights (general or otherwise) in the arrangement. Therefore, the automobile and the maintenance services should be considered separate units of accounting in the arrangement.

Because no entity sells the automobile separately, neither VSOE nor TPE of selling price exists. However, there is VSOE of selling price of the maintenance services (as evidenced by the amount charged on a standalone basis by Company A for maintenance services and data available from which to estimate the volume and types of maintenance services provided during a typical customer's ownership of the vehicle). As a result, the consideration ~~Consideration~~ in the

arrangement should be allocated to the units of accounting using the residual method. The selling price ~~fair value~~ of the maintenance services should be determined as described ~~in the~~ above ~~paragraph~~. The remaining arrangement consideration should be allocated to the automobile. Additionally, none of the amount allocable to the automobile is contingent upon providing the maintenance services.

Example 5—Sale of Home Appliances with Installation and Maintenance Services

Company S is an experienced home appliance dealer. Company S also offers a number of services together with the home appliances that it sells. Assume that Company S regularly sells Appliance W on a standalone basis. Company S also sells installation services and maintenance services for Appliance W. However, Company S does not offer installation or maintenance services to customers who buy Appliance W from other vendors. Pricing for Appliance W is as follows:

- Appliance W only $800
- Appliance W with installation service $850
- Appliance W with maintenance services $975
- Appliance W with installation and maintenance services $1,000

In each instance in which maintenance services are provided, the maintenance service is separately priced within the arrangement at $175. Additionally, ~~Note also that~~ the incremental amount charged by Company S for installation of $50 approximates the amount charged by independent third parties.

Appliance W is sold subject to a general right of return. If a customer purchases Appliance W with installation and/or maintenance services, in the event that Company S does not complete the services satisfactorily, the customer is only entitled to a refund of the portion of the fee that exceeds $800.

Assume that a customer purchases Appliance W with both installation and maintenance services for $1,000. Based on its experience, Company S believes that it is probable that installation of the equipment will be performed satisfactorily to the customer. The maintenance services are priced separately and should be accounted for based on the guidance in Technical Bulletin 90-1.

Company S is evaluating whether Appliance W and the installation service represent separate units of accounting. ~~(The maintenance services are separately priced at $175 and should be accounted for based on the guidance in Technical Bulletin 90-1.)~~

Evaluation: The first condition for separation is met for Appliance W because it is sometimes sold separately by Company S. The second condition for separation is also met~~. There is objective and reliable evidence of the fair value of the installation on a separate component basis (as evidenced by the amount charged by independent third parties). The third condition for separation is met~~ because, even though a general right of return exists, performance of the appliance installation is probable and within the control of Company S. Therefore, Appliance W and installation should be accounted for as separate units of accounting.

Company S would allocate $175 of the arrangement consideration to the maintenance services based on the guidance in Technical Bulletin 90-1. Without considering whether any of the amount otherwise allocable to Appliance W is contingent upon the performance of the installation, Company S would allocate the remainder of the arrangement consideration ($825) to Appliance W and the installation service using the relative~~ in proportion to their fair values~~ selling price method. ~~The fair value~~ VSOE of selling price of Appliance W is its price when sold separately ($800), and the ~~fair value~~ TPE of selling price of the installation service is the amount charged by independent third parties, which approximates $50. Therefore, the amounts ~~otherwise~~ allocable to Appliance W and to the installation services are $776 [$825 × ($800 ÷ [$800 + $50])] and $49 [$825 × ($50 ÷ [$800 + $50])], respectively. Since the customer is entitled only to a refund of the portion of the fee that exceeds $800 if the installation is not performed, no portion of the amount allocable to Appliance W is contingent upon that installation.

Example 6—Human Resources Outsourcing Services

HR Company (HR) provides its customers with human resource solutions (for example, support and guidance in areas such as employee relations, payroll and taxes, health benefits administration, and 401(k) administration). Customers may choose a prepackaged bundle of services, may customize an existing bundle of services, or may select the individual services they require. Given the many services provided by HR and the varying needs of its customers, no two arrangements are exactly alike. HR prices its arrangements based on the unique bundle of

services to be provided. As a result, HR does not have VSOE of selling price for any individual service that it provides. Although each service is sold separately by other vendors, and while HR has some information about its competitors' pricing, it is unable to obtain TPE of selling price for any individual service.

Assume that on January 1, 20X1, HR begins providing human resource solution services to Customer Y under a 3-year arrangement. Under the arrangement, HR agrees to provide Customer Y with payroll processing, three periodic training events, employee handbook development, and an executive compensation assessment. The executive compensation assessment and employee handbook development are expected to be completed by June 30, 20X1 and 20X2, respectively. HR expects to provide one training event annually. Total compensation under the arrangement is $1,275,000. HR receives compensation under the arrangement as follows: an upfront payment of $375,000 and monthly payments of $25,000. There are no general refund rights included in the arrangement.

HR is evaluating whether (a) payroll processing, (b) periodic training, (c) employee handbook development, and (d) executive compensation assessment represent separate units of accounting and how to allocate arrangement consideration to the separate units of accounting.

Evaluation: In accordance with paragraph 8 of this Issue, HR is required to assess whether the delivered items in the arrangement are considered separate units of accounting at the inception of the arrangement and as each item in the arrangement is delivered. For purposes of this example, the initial assessment at January 1, 20X1, and the interim periods during the year ended December 31, 20X1, are not shown. Rather, for purposes of this example, the assessment of whether the deliverables in the arrangement qualify as separate units of accounting is illustrated as of December 31, 20X1, HR's annual reporting date. As of that date, HR has delivered payroll processing services, one training event, and the executive compensation assessment. At that date, the first condition for separation is met for each of the three delivered items as each service is sold separately by other vendors. The second condition for separation is also met as there are no general refund rights. Therefore, the three delivered items are considered separate units of accounting in the arrangement.

Because HR does not have either VSOE or TPE of selling price for all of the units of accounting in the arrangement (as noted earlier, HR has some information about its competitors' pricing but

it is unable to obtain TPE of selling price for any individual service), HR must estimate the selling price for the undelivered units of accounting and allocate the arrangement consideration using the residual method.

At December 31, 20X1, the following items remain undelivered: (1) two years of payroll processing, (2) employee handbook development (for which HR has yet to begin development), and (3) two training events. In order to complete the allocation of arrangement consideration, HR must estimate the selling price for these undelivered units of accounting.

In estimating the selling price for the undelivered units of accounting, HR considered its internal costs, profit objectives, pricing practices used to establish the bundled price for its services, and whether any market constraints exist that may limit its selling price~~. F~~(for example, whether competitors could charge a lower price for the service or whether the price for the service exceeds the cost savings to its customers). HR believes that as the price for its service begins to exceed the customer's internal cost, the customer would be less likely to purchase the service.

When determining the price for its bundled services, HR typically applies a gross profit margin to the cost (primarily labor and other time and expenses) it will incur in providing the contracted services. The profit margin varies with the types of services to be provided and generally includes a discount based on the number of services being purchased. For example, HR typically includes a 26 percent gross profit margin on its payroll processing services, a 15 percent gross profit margin on its employee handbook development services, and a 22 percent gross profit margin on its training services before considering any discount on the total arrangement. Those gross profit margins have been developed over time (by a relevant authorized level of management) based on available market data and demand for the services. HR believes that these returns are consistent with the gross margins sought by its competitors. In addition, HR has no information that would indicate that a competitor would charge a price that could affect the price HR could charge for its service, either by limiting the price that HR could charge or by allowing HR to increase its price. In addition, HR's analysis also indicates that the price of the individual services calculated using its internal gross profit margins would be in a range in which the service would still be attractive to its customers (that is, the cost of the service would be less than the internal costs for its customers to provide the service themselves).

Using its internal gross profit margins, and the total estimated costs it will incur to deliver the remaining units of accounting and considering market constraints, HR estimates the selling price for the undelivered units of accounting as follows:

Costs to be incurred for payroll processing for 2 years	519,330
(1 − Payroll processing gross profit margin)	.74
Estimated selling price for payroll processing	701,797
Costs to be incurred for employee handbook	56,113
(1 − Employee handbook gross profit margin)	.85
Estimated selling price for employee handbook	66,015
Costs to be incurred for 2 training events	40,706
(1 − Training event gross profit margin)	.78
Estimated selling price for training costs	52,187
Total estimated selling price of the undelivered units of accounting	820,000

HR would allocate the arrangement consideration ($1,275,000) using the residual method as HR does not have either VSOE or TPE of selling price for all units of accounting in the arrangement. Therefore, at December 31, 20X1, HR allocates $455,000 ($1,275,000 − $820,000) to the delivered units of accounting. The residual amount is not limited to VSOE or TPE of selling price of the delivered units of accounting as HR has determined VSOE and TPE of selling price do not exist for the delivered units of accounting.

~~Example 6—Biotech License, Research and Development, and Contract Manufacturing Agreement~~

~~Biotech Company (Biotech) enters into an agreement with Pharmaceutical Company (Pharma). The agreement includes (a) Biotech licensing certain rights to Pharma, (b) Biotech providing research and development services to Pharma, and (c) Biotech contract manufacturing product for Pharma. Additional details on each of those aspects of the agreement follow.~~

~~*License:* Biotech licenses certain rights on an exclusive basis to Pharma for a period of 10 years. The license gives Pharma the exclusive right to market, distribute, and manufacture Drug B as developed using Technology A. Biotech retains all ownership rights to Technology A and Drug B. There are no when-and-if-available clauses or other performance obligations associated with the license, except as described below.~~

~~*Research and development:* Biotech agrees to provide research and development services on a best-efforts basis to Pharma. Biotech agrees to devote four full-time equivalents (FTEs) to the research and development activities, and Pharma expects to devote several full-time equivalents to the research and development activities as well. The objective of the research and development services is to develop Drug B using Technology A. The ultimate objective is to receive Food and Drug Administration (FDA) approval on Drug B.~~

~~*Contract manufacturing:* If successfully developed, Biotech agrees to manufacture Drug B for Pharma for a period of five years.~~

~~Compensation under the arrangement is as follows:~~

- ~~Biotech receives $5 million up-front upon signing the agreement.~~
- ~~Biotech receives $2 million upon meeting each of 4 defined milestones ($8 million in total if all 4 defined milestones are met).~~
- ~~Biotech receives $250,000 per year for each FTE that performs research and development activities.~~
- ~~Biotech receives "cost plus 30 percent" for manufacturing Drug B (that is, Biotech will receive compensation for its direct costs plus a 30 percent margin for manufacturing Drug B).~~

~~None of these payments, once received, are refundable, even if FDA approval is never received. In addition, while Biotech must perform on a best-efforts basis, it is not obligated to achieve the milestones.~~

~~While Biotech has licensed certain rights related to Technology A to other parties, Biotech has not licensed Technology A to others for use in the development of Drug B. Likewise, Biotech has not licensed the marketing, distribution, or manufacturing rights of Drug B to any other party.~~

~~Pharma must use Biotech to perform the research and development activities necessary to develop Drug B using Technology A because the know-how and expertise related to Technology A is proprietary to Biotech. In other words, Biotech is the only party capable of performing the level and type of research and development services required by Pharma under the agreement. Biotech has determined that the fees charged for the research and development services (that is, the $250,000 per year for each FTE that performs research and development activities) are competitive with what other third-party vendors charge for similar research and development services (that is, they represent the fair value of those services). In addition, Biotech regularly provides similar research and development services to other customers for comparable fees. The fees earned by Biotech if it reaches the milestones represent performance bonuses that are contingent only on performance of the research and development services (that is, they are unrelated to the contract manufacturing deliverable and are not part of the fair value of the research and development services).~~

~~Assuming that the contract manufacturing provided by Biotech could be provided by other contract manufacturers (who would not be dependent on Biotech for critical ingredients), the license agreement gives Pharma the right to manufacture the drug; no proprietary information related to the manufacturing process would preclude other parties from being able to manufacture Drug B. Biotech has determined that cost plus 30 percent is competitive with what other third-party contract manufacturers charge for manufacturing drugs similar to Drug B (that is, it represents the fair value of those services). In addition, Biotech regularly provides similar contract manufacturing services for other customers for comparable fees.~~

~~**Evaluation:** There are three deliverables in this arrangement that should be considered for separation: (1) license, (2) research and development activities, and (3) contract manufacturing. The efforts expended by Biotech to reach each of the four defined milestones are considered part of the research and development activities and are not evaluated on a standalone basis. The fees earned by Biotech if it reaches the milestones represent performance bonuses that are contingent only on performance of the research and development services (that is, they are unrelated to the contract manufacturing deliverable).~~

~~The license deliverable does not meet the first criterion for separation. The license deliverable~~

~~does not have standalone value to Pharma. Because Drug B has not yet been developed, the license is of no value to Pharma without the ensuing research and development activities using Technology A, which is proprietary to Biotech. Likewise, Pharma could not sell the license on a standalone basis to another party (that is, without Biotech agreeing to provide the research and development activities for that other party).~~

~~On a combined basis, however, the license and research and development activities have value on a standalone basis. That is, Biotech, in similar arrangements, has sold the license and research and development separately from the manufacturing process. Additionally, Pharma could sell that combined unit of accounting to another party.~~

~~The combined unit of accounting (license and research and development activities) also meets the second criterion for separation from the contract manufacturing because Biotech has objective and reliable evidence of the fair value of the contract manufacturing (based on what it and other third parties charge for that type of service). Finally, there are no general rights of return in the arrangement. Therefore, the combined unit of accounting should be considered a separate unit of accounting in the arrangement.~~

~~Biotech has not entered into any other agreements in which it has (a) licensed the marketing, distribution, and manufacturing rights to Technology A for use in the development of Drug B and (b) agreed to perform research and development activities to develop Technology A into Drug B. In addition, given the unique nature of Technology A, third-party fair value evidence for the combined unit of accounting also does not exist. As such, Biotech does not have objective and reliable evidence of the fair value of the combined unit of accounting. Based on that analysis, the method of allocating the arrangement consideration would be the residual method because fair value evidence exists for the contract manufacturing, but not the combined unit of accounting. Because the contract manufacturing deliverable is priced at its fair value, none of the other arrangement consideration should be allocated to the contract manufacturing deliverable.~~

Example 7—Sale of Medical Equipment with Cartridges and Installation

Company M manufactures and sells complex medical equipment to physicians and hospitals for medical scanning purposes. Prior to shipment, each piece of equipment is extensively tested to

meet company and FDA specifications. The equipment is shipped fully assembled, but some installation and setup is required. No other companies sell the same or largely interchangeable equipment.

Installation is a standard process, outlined in the owner's manual, consisting principally of uncrating, calibrating, and testing the equipment. A purchaser of the equipment could complete the process using the information in the owner's manual, although it would probably take significantly longer than it would take Company M's technicians to perform the tasks. Although ~~While the process is not complex and does not involve proprietary information,~~ other vendors do not install Company M's equipment~~provide the service~~, other vendors do provide largely interchangeable installation services for $20,000. Historically, Company M has never sold the equipment without installation. Most~~most~~ installations are performed by Company M ~~and are completed~~ within 7–24 days of shipment. Installation is included in the overall sales price of the equipment ~~(that is, Company M does not sell the equipment on a noninstalled basis) and has an estimated fair value of $20,000 (based on per diem rates for technician time)~~.

In addition, the customer must pay for cartridges that record images. The retail price of each cartridge is $250. Company M is the only manufacturer of the cartridges but also sells them on a wholesale basis through a wide network of distributors. Each cartridge can handle only a specific number of scans. Once a cartridge is exhausted, a new one must be purchased in order to use the equipment. Company M always sells its equipment with a starter supply of 20 cartridges.

The sales price of the arrangement that consists of the equipment, installation, and 20 cartridges is $400,000. The customer is obligated to pay in full upon delivery of the equipment. The customer is entitled to a refund of $25,000 if Company M does not perform the installation or if the 20 cartridges are not delivered. On March 15, Company M delivers the equipment and on April 5 delivers the 20 cartridges and performs the installation. Company M is evaluating whether delivery of the equipment represents a separate unit of accounting.

Evaluation: The first condition for separation is met for the equipment because, even though Company M has never sold the equipment without the cartridges, a customer could resell the equipment (in a primary or secondary market). The second condition for separation is also met because ~~objective and reliable evidence of fair value exists for the cartridges and the installation~~

~~based on third-party evidence and Company M's entity-specific evidence of fair value. The third condition for separation is met because~~ there are no general rights of return involved in this arrangement. Therefore, the equipment should be accounted for as a separate unit of accounting.

Company M does not have VSOE of selling price for the equipment as it does not sell the equipment separately (without installation services and cartridges). In addition, TPE of selling price does not exist as no vendor separately sells the same or largely interchangeable equipment.

The residual method should be used to allocate the arrangement consideration because Company M has neither VSOE nor TPE of selling price for the delivered unit of accounting (equipment). However, Company M has VSOE of selling price for the cartridges ($5,000 = 20 × $250) and TPE of selling price for the installation services ($20,000). Accordingly, without considering whether any portion of the amount allocable to the equipment is contingent upon delivery of the other items, the amount ~~otherwise~~ allocable to the equipment, cartridges, and installation ~~would be~~ is as follows: $375,000 to the equipment ($400,000 – ~~[$250 × 20]~~ $5,000 – $20,000), $5,000 to the cartridges ($250 × 20), and $20,000 to the installation. Additionally, no portion of the amount allocable to the equipment is contingent upon the delivery of the cartridges or performance of the installation. That is, if the cartridges are not delivered and the installation is not performed, Company M would be entitled to $375,000.

Example 8—Sale of Computer System

Company B sells computer systems. On April 20, a customer purchases a computer system from Company B for $1,000. The system consists of a CPU, a monitor, and a keyboard. Solely for purposes of simplifying this illustration of the application of the guidance in this Issue, it is assumed that the CPU does not include software that is more-than-incidental to the products in the arrangement; therefore, the provisions of SOP 97-2 do not apply. On April 30, Company B delivers the CPU to the customer without the monitor or keyboard. Each of the items is regularly sold ~~can be purchased~~ separately at a ~~cost~~ price of $700 for the CPU, $300 for the monitor, and $100 for the keyboard. The CPU could function with monitors or keyboards manufactured by others, who have them readily available. The customer is entitled to a refund equal to the separate price of any item composing the system that is not delivered. The arrangement does not

include any general rights of return. Company B is evaluating whether delivery of the CPU represents a separate unit of accounting.

Evaluation: The first condition for separation is met for the CPU, as it is sold separately by Company B. The second condition for separation is met because ~~the fair values of the undelivered items (keyboard and monitor) are objectively and reliably determined based on the price of that equipment when sold separately by Company B. The third condition for separation is met because~~ there are no general rights of return. Therefore, the CPU should be accounted for as a separate unit of accounting.

Company B has VSOE of selling price for all deliverables in the arrangement as each is sold regularly on a standalone basis. Without considering whether any portion of the amount allocable to the CPU is contingent upon delivery of the other items, Company B would allocate the arrangement consideration ~~on a~~ using the relative selling price method because either VSOE or TPE of selling price exists for all deliverables in the arrangement ~~fair value~~ ~~basis~~. Therefore, the portion of the arrangement fee otherwise allocable to the CPU is $636.36 ($1,000 × [$700 ÷ $1,100]), of which $36.36 ($636.36 – [$1,000 – $~~400~~300 − $100]) is subject to refund if the monitor and keyboard are not delivered. Therefore, the amount allocable to the CPU is limited to $600, which is the amount that is not contingent upon delivery of the monitor and keyboard.

Example 9—Sale of 12 Bolts of Fabric

Company D sells fabric for use in manufacturing clothing. Customers may purchase fabric from Company D in individual 50-yard bolts or in bulk lots consisting of multiple bolts. One of Company D's customers (Customer A) is a manufacturer of band uniforms that prefers to purchase the fabric in bulk because it needs the fabric to have a high level of consistency in color and quality. Customer A enters into an arrangement with Company D to purchase a 12-bolt bulk lot of fabric that is to be delivered by Company D in 3 4-bolt installments over a period of 3 months. At Customer A's request, Company D provides a customer satisfaction guarantee that it will refund double the price (up to a maximum of the total arrangement fee) for each bolt of fabric that is not delivered or not delivered from the same dye lot as the initial installment. That is, the double-money-back guarantee provides that the customer, in addition to having no obligation for bolts of fabric not delivered or not delivered from the appropriate dye lot, will

receive a refund for (or will not be obligated to pay for) an equal number of bolts. There are no general rights of return included in the arrangement. The price for an individual 50-yard bolt of fabric is $160, and the price for a 12-bolt bulk lot is $1,824.

In determining the units of accounting under the arrangement, Company D considered the following scenario:

> Company D sold the 12-bolt bulk lot of fabric to Customer A on November 1, 20X2. Company D will deliver the first of three four-bolt installments of fabric on November 15, 20X2 and will deliver the remaining installments on December 15, 20X2, and January 15, 20X3. Customer A is obligated to Company D for the full price of the fabric on November 15, 20X2, subject to the money-back guarantee. Company D has sufficient production capacity and inventory to deliver all of the fabric in accordance with the installment provisions of the arrangement and, therefore, believes that it will do so. In addition, Company D has entered into similar arrangements with many other customers in the past and has rarely failed to deliver fabric from the appropriate dye lot under its bulk-sale arrangements.

Evaluation: The first condition for separation is met for the delivered fabric because Company D also sells bolts of fabric individually. The second condition for separation is also met because ~~objective and reliable evidence of fair value exists based on Company D's vendor-specific evidence of fair value. Arrangement consideration would be allocated evenly among the 12 bolts of fabric because each has an identical fair value (based on Company D's vendor-specific evidence of fair value). The third condition for separation is met because~~ there are no general rights of return in the arrangement. Therefore, the delivered fabric should be accounted for as a separate unit of accounting.

Without considering whether any portion of the amount allocable to the individual bolts of fabric is contingent upon delivery of the other bolts of fabric, Company D would allocate the arrangement consideration evenly among the 12 bolts of fabric using the relative selling price method because each bolt has an identical selling price. Therefore, the portion of the arrangement fee otherwise allocable to each bolt of fabric is $152 ($1,824 ÷ 12). However, in allocating the arrangement consideration, no amount is allocable to the initial delivered fabric

because the arrangement provides the customer with a double-money-back guarantee for each bolt of fabric not delivered from the same dye lot as the initial installment. However, upon delivery of the second four-bolt installment (assuming that installment is delivered from the same dye lot as the initial installment), the amount allocable to that installment would be the amount related to four bolts of fabric, $608 ($152 × 4 bolts of fabric). That is, if the third installment was not delivered or was not delivered from the same dye lot as the initial installment, Company D would be entitled only to the price charged for four bolts of fabric.

Example 10—Painting Contract

PainterCo is a contractor that provides painting services for commercial and private residences. PainterCo contracts with a customer to paint the customer's house for $3,000. The price is inclusive of all paint, which is obtained by PainterCo at a cost of $800. The customer is given the right to purchase paint separately if so desired (although the customer did not opt to do so in this example). The paint would have cost the customer $900 if purchased from a hardware store. The painting service would have cost $2,150 if purchased without the paint.

All paint necessary to complete the project is delivered to the customer's house prior to the beginning of the work. The customer has a general right of return with respect to any unopened can of paint. Further, the customer may receive a full refund of the sales price for all of the paint (whether or not the cans were opened) if PainterCo does not paint the house. PainterCo has always completed the painting service in accordance with contract terms and, therefore, believes that performance of the painting service in this arrangement is probable. PainterCo does not sell paint without providing the painting service.

Evaluation: The first condition for separation is met because the paint is sold separately by other vendors. The second condition for separation is also met ~~for the painting service because objective and reliable evidence of fair value exists as PainterCo sells the painting service separately. The third condition for separation is met~~ because, even though a general right of return exists, performance of the painting service is probable and within the control of PainterCo. Therefore, the paint and the painting service are considered separate units of accounting.

However, in allocating the arrangement consideration, no amount would be allocated to the paint

because, in the event that PainterCo does not perform the painting service, the customer may return all of the paint for a full refund.

Example 11 — Agricultural Equipment

Company A engages in the manufacture and distribution of farm equipment and related service parts, including tractors, harvesters, integrated agricultural management systems technology, and precision agricultural irrigation equipment. Each product has standard performance specifications but can be customized to meet the specific needs of any buyer. Company A extensively tests the equipment against standard performance indicators and customer specifications prior to shipment.

On December 29, 20X8, Company A enters into an arrangement to deliver a tractor and customized irrigation equipment to Customer M for a fee of $270,000. For purposes of this example, it is assumed that the irrigation equipment is not required to be accounted for in accordance with SOP 81-1. The customer is obligated to pay $100,000 upon delivery of the tractor and the remainder of the arrangement consideration upon delivery of the irrigation equipment. On December 31, 20X8, Company A delivers the tractor, and on April 5, 20X9, Company A delivers the irrigation equipment. Neither product requires installation.

The tractor in this arrangement is often sold separately by Company A for a price of $100,000, which is considered VSOE of selling price. The irrigation equipment is also sold separately; however, because of the customized nature of the product, Company A has neither VSOE nor TPE of selling price.

Company A is considering whether the tractor is a separate unit of accounting and, if so, how to allocate the arrangement consideration at December 31, 20X8.

Evaluation: The first condition for separation is met for the tractor. The tractor has standalone value as it is sold separately by Company A. The second condition for separation is also met as there are no general rights of return. Therefore, the tractor should be accounted for as a separate unit of accounting.

Because Company A has neither VSOE nor TPE of selling price for the undelivered unit of

accounting in the arrangement (irrigation equipment), Company A must estimate the selling price for the undelivered unit of accounting and allocate the arrangement consideration using the residual method.

Company A considered the following in estimating the stand-alone selling price for the irrigation equipment (undelivered unit of accounting):

- Company A's cost to produce the customized irrigation equipment is $110,000.
- The division of Company A that produces the irrigation equipment and other similar products, earns an average gross profit margin of approximately 30 percent. The profit margins within the irrigation product line vary from 10 to 45 percent. Company A generally receives a higher profit margin on the more specialized or customized products.
- When selling non-customized irrigation equipment, Company A averages, on a world-wide basis, a selling price of approximately $140,000, which includes a gross profit margin of 25 percent.
- Customer M is located in Asia where high demand has resulted in Company A being able to command 10-15 percent higher prices for its irrigation product line than it commands in other markets it serves. This pricing is also consistent with Company A's ongoing marketing strategy in Asia.
- Direct competitors to Company A's irrigation product line, Company D and Company E, earn average gross profit margins in Asia of 30 percent and 32 percent, respectively, based on a review of those companies' periodic filings.
- The customized irrigation equipment includes enhanced functionality that Company A does not believe its competitors can provide. Company A believes this enhanced functionality has additional value in the marketplace.
- Company A's price list provided to prospective customers lists the price for irrigation equipment prior to customization at $155,000.

After weighing the relevance of the available data points, Company A estimates its stand-alone selling price for the irrigation equipment to be $185,000. The determination of that estimated selling price was based on the cost of the irrigation equipment of $110,000 plus an estimated gross profit margin of 40 percent. The 40 percent gross profit margin is management's best

estimate based on the margin they would expect to earn on the irrigation equipment if sold separately in Asia. The estimated margin of 40 percent is higher than the 30 percent average margin of the division based on consideration of the fact that the 30 percent average margin includes lower margin products. Company A also notes that it believes that it could command higher margins in Asia than the average margin due to the high demand in that market and based on recent history combined with its ongoing pricing strategy. Company A also considered the margins reported by its competitors and believes its estimated 40 percent margin is reasonable in relation to the competitor margins considering the enhanced functionality it believes the irrigation equipment has over its competitors' products.

Company A did not rely on the $170,000 price of the irrigation equipment that was stated in the arrangement as the stated prices were negotiated to provide for more cash consideration earlier in the arrangement rather than to reflect the stand-alone selling price of the products. In addition, the arrangement prices are net of any discount embedded in the bundled arrangement rather than stand-alone selling prices of the products. Considering the customized nature of the irrigation equipment, Company A did not consider the estimated selling price of $185,000 to be inconsistent with the list price of $155,000 for uncustomized irrigation equipment.

Accordingly, at December 31, 20X8, using the residual method of allocation Company A would allocate $185,000 of the arrangement consideration to the irrigation equipment. The residual amount of $85,000 ($270,000 − $185,000) would be attributed to the tractor before considering whether the residual amount exceeds the VSOE or TPE of selling price for the tractor. Because Company A has VSOE of the selling price of the tractor, it must consider whether the amount allocated to the tractor using the residual method exceeds its VSOE. The VSOE of the selling price of the tractor is $100,000, which is greater than the amount allocated to the tractor ($85,000), so the amount allocated is not limited by the VSOE of the selling price.. Additionally, because $100,000 was due upon delivery of the tractor none of the amount allocable to the tractor is contingent upon delivery of the irrigation equipment.

Example 12—Biotech License, Research and Development, and Contract Manufacturing Agreement

Biotech Company (Biotech) enters into an agreement with Pharmaceutical Company (Pharma).

The agreement includes (1) Biotech licensing certain rights to Pharma and (2) Biotech providing research and development services to Pharma. Additional details on those aspects of the agreement follow.

License: Biotech licenses certain rights on an exclusive basis to Pharma for a period of 10 years. The license gives Pharma the exclusive right to market, distribute, and manufacture Drug B as developed using Technology A. Biotech retains all ownership rights to Technology A and Drug B. There are no when-and-if-available clauses or other performance obligations associated with the license, except as described below.

Research and development: Biotech agrees to provide research and development services on a best-efforts basis to Pharma. Biotech agrees to devote four full-time equivalent employees (FTEs) to the research and development activities, and Pharma expects to devote several FTEs to the research and development activities as well. The objective of the research and development services is to develop Drug B using Technology A. The ultimate objective is to receive Food and Drug Administration (FDA) approval on Drug B.

Compensation under the arrangement is as follows:

- Biotech receives $5 million up-front upon signing the agreement
- Biotech receives $250,000 per year for each FTE that performs research and development activities.

None of these payments, once received, is refundable, even if FDA approval is never received. In addition, Biotech must perform on a best-efforts basis.

Pharma must use Biotech to perform the research and development activities necessary to develop Drug B using Technology A because the know-how and expertise related to Technology A is proprietary to Biotech. In other words, Biotech is the only party capable of performing the level and type of research and development services required by Pharma under the agreement. Biotech has determined that the fees charged for the research and development services (that is, the $250,000 per year for each FTE that performs research and development activities) are

competitive with what other third-party vendors charge for similar research and development services (that is, they represent TPE of selling price for those services).

Evaluation: There are two deliverables in this arrangement that should be considered for separation: (1) license and (2) research and development activities. The license deliverable does not meet the first criterion for separation since it does not have standalone value to Pharma. Because Drug B has not yet been developed, the license is of no value to Pharma and could not be sold without the accompanying research and development activities using Technology A, which is proprietary to Biotech. Likewise, Pharma could not sell the license on a standalone basis to another party (that is, because without Biotech agreeing to provide the research and development activities for that other party, the other party would not purchase the license). Therefore, the license and research and development activities should be considered a single unit of accounting in the arrangement.

Issue No. 08-6

Title: Equity Method Investment Accounting Considerations

Dates Discussed: September 10, 2008; November 13, 2008

References: FASB Statement No. 141, *Business Combinations*

FASB Statement No. 141 (revised 2007), *Business Combinations*

FASB Statement No. 142, *Goodwill and Other Intangible Assets*

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

FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*

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

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

SEC Staff Accounting Bulletin No. 51, *Accounting for Sales of Stock by a Subsidiary*

International Accounting Standard 28, *Investments in Associates*

Introduction

1. The FASB and the IASB recently concluded a joint effort in converging the accounting for business combinations as well as the accounting and reporting for noncontrolling interests culminating in the issuance of Statement 141(R) and Statement 160. The objective of that joint effort was not to reconsider the accounting for equity method investments; however, the application of the equity method is affected by the accounting for business combinations and the accounting for consolidated subsidiaries, which were affected by the issuance of Statement 141(R) and Statement 160. Prior to the issuance of Statement 141(R) and Statement 160, certain provisions of Statement 141 and ARB 51 were used in applying the equity method.

2. The equity method is used to account for investments for which the investor has the ability to exercise significant influence over the investee as described in Opinion 18. The principles within Statement 141(R) and Statement 160 are based on the premise that the reporting entity has gained or lost control of the business or subsidiary. Since there is a substantial difference between the ability to control and the ability to exert significant influence, some constituents have questioned whether all of the provisions of Statement 141(R) and Statement 160 should be applied when accounting for an equity method investment.

3. Additionally, the IASB made certain revisions to IAS 28 that the FASB did not make to Opinion 18. Some constituents have questioned whether Opinion 18 should be similarly revised to further convergence efforts between U.S. generally accepted accounting principles and International Financial Reporting Standards.

Issue

4. The issues are:

Issue 1— How the initial carrying value of an equity method investment should be determined

Issue 2— How an impairment assessment of an underlying indefinite-lived intangible asset of an equity method investment should be performed

Issue 3— How an equity method investee's issuance of shares should be accounted for

Issue 4— How to account for a change in an investment from the equity method to the cost method.

Scope

5. This Issue applies to all investments accounted for under the equity method.

Prior EITF Discussion

6. At the September 10, 2008 EITF meeting, the Task Force reached a consensus-for-exposure on Issues 1–4. Additionally, the Task Force considered whether to provide guidance on how the difference between the investor's carrying value and the investor's share of the underlying equity of the investee as of the acquisition date should be allocated to the underlying assets and liabilities of the investee. After discussion, the Task Force decided not to address this issue.

7. On Issue 1, the Task Force reached a consensus-for-exposure that the initial carrying value of an equity method investment should be based on the cost accumulation model described in paragraphs D3–D7 of Statement 141(R) for asset acquisitions.

8. On Issue 2, the Task Force reached a consensus-for-exposure that an equity method investor should not separately test an investee's underlying indefinite-lived intangible asset for impairment. The Task Force noted that an equity method investor is required to recognize other-than-temporary impairments of an equity method investment in accordance with paragraph 19(h) of Opinion 18.

9. On Issue 3, the Task Force reached a consensus-for-exposure that an equity method investor should account for an investee's issuance of shares as if the equity method investor had sold a proportionate share of its investment. Any resulting gain or loss shall be recognized in earnings, subject to certain exceptions. The Task Force reached a consensus-for-exposure that the exceptions to gain recognition in SAB 51 should be retained if applicable to an equity method investee. SAB 51 precludes recognition of a gain in situations in which the share issuance was part of a broader corporate reorganization or in situations in which the equity method investee is a newly formed, nonoperating entity, a research and development entity, a start-up or development-stage entity, an entity whose ability to continue in existence is in question, or an entity in another similar circumstance. In those situations, the change in the investor's proportionate share of subsidiary equity shall be accounted for as an equity transaction in consolidation. Subsequent reversal of the amount recognized in equity is prohibited.

10. On Issue 4, the Task Force reached a consensus-for-exposure that an equity method investor should continue to apply the guidance in paragraph 19(l) of Opinion 18 upon a change in the investor's accounting from the equity method to the cost method.

Current EITF Discussion

11. At the November 13, 2008 EITF meeting, the Task Force discussed (a) comment letters and informal comments received on the draft abstract and (b) proposed revisions to the draft abstract that were intended to clarify the basis of the Task Force's consensus-for-exposure. After discussing the comments received, the Task Force affirmed as a consensus the decisions reached at the September 10, 2008 EITF meeting on Issues 1-4 with certain revisions discussed below.

12. The Task Force clarified the consensus-for-exposure reached on Issue 2 to state that none of the underlying assets of an equity method investee are tested for impairment separate from the other-than-temporary impairment assessment performed by the investee. Some Task Force members expressed concern that this clarification of the consensus-for-exposure could result in confusion about how an investor would account for its share of an impairment charge recorded by an investee. To address that concern, the Task Force agreed to clarify that an equity method investor should continue to recognize its share of any impairment charge recorded by an investee in accordance with paragraphs 19(b) and 19(c) of Opinion 18 and consider the effect, if any, of the impairment on the investor's basis difference in the assets. This would include recognizing adjustments related to the difference between the investor's allocated cost and the investee's basis in the assets in addition to its share of the impairment loss recorded by the investee.

13. The Task Force also revised the consensus-for-exposure on Issue 3 to remove the exceptions to recognizing gains in earnings. The consensus-for-exposure included limits to gain recognition currently contained in SAB 51. Some Task Force members observed that such a revision would be consistent with the application of Statement 160.

14. Appendix 08-6A reflects changes made to the draft abstract as a result of the above revisions to the consensuses-for-exposure (added text is underlined and deleted text is ~~struck out~~).

Effective Date and Transition

15. The Task Force reached a consensus that this Issue shall be effective in fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years, consistent with the effective dates of Statement 141(R) and Statement 160. This Issue shall be applied prospectively. Earlier application by an entity that has previously adopted an alternative accounting policy is not permitted. The transition disclosures in paragraphs 17 and 18 of Statement 154 shall be provided, if applicable.

16. The Task Force noted that transition is not required for the consensus on Issue 4 as it is consistent with guidance currently required by paragraph 19(l) of Opinion 18.

Board Ratification

17. At the November 24, 2008 meeting, the Board ratified the consensus reached by the Task Force in this Issue.

Status

18. No further EITF discussion is planned.

Appendix 08-6A

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

Issue No. 08-6

Title: Equity Method Investment Accounting Considerations

Dates Discussed: September 10, 2008; ~~[~~November 13, 2008~~]~~

References: FASB Statement No. 141, *Business Combinations*

FASB Statement No. 141 (revised 2007), *Business Combinations*

FASB Statement No. 142, *Goodwill and Other Intangible Assets*

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

FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*

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

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

SEC Staff Accounting Bulletin No. 51, *Accounting for Sales of Stock by a Subsidiary*

International Accounting Standard 28, *Investments in Associates*

Objective

1. **The objective of this Issue is to clarify the~~how to~~ accounting for certain transactions and impairment considerations involving equity method investments.**

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

[*] ~~**This draft abstract is being exposed for a public comment period that will end on October 22, 2008.**~~

Background

2. The FASB and the IASB concluded a joint effort in converging the accounting for business combinations as well as the accounting and reporting for noncontrolling interests culminating in the issuance of Statement 141(R) and Statement 160. The objective of that joint effort was not to reconsider the accounting for equity method investments; however, the application of the equity method is affected by the accounting for business combinations and the accounting for consolidated subsidiaries, which were affected by the issuance of Statement 141(R) and Statement 160.

Scope

3. **This Issue applies to all investments accounted for under the equity method.**

Initial Measurement

4. **An entity shall measure its equity method investment initially at cost in accordance with paragraphs D3–D7 of Statement 141(R).**

5. Contingent consideration should only be included in the initial measurement of the equity method investment if it is required to be recognized by specific authoritative guidance other than Statement 141(R).

6. However, if an equity method investment agreement involves a contingent consideration arrangement in which the fair value of the investor's share of the investee's net assets exceeds the investor's initial cost, an amount equal to the lesser of the following shall be recognized as a liability:

   a. The maximum amount of contingent consideration not otherwise recognized
   b. The excess of the investor's share of the investee's net assets over the initial cost measurement (including contingent consideration otherwise recognized).

7. When a contingency is resolved relating to a liability recognized pursuant to paragraph 6 and the consideration is issued or becomes issuable, any excess of the fair value of the contingent consideration issued or issuable over the amount that was recognized as a liability shall be recognized as an additional cost of the investment. If the amount initially recognized as a liability exceeds the fair value of the consideration issued or issuable, that excess shall reduce the cost of the investment.

Decrease in Investment Value

8. **An equity method investor is required to recognize other-than-temporary impairments of an equity method investment in accordance with paragraph 19(h) of Opinion 18. An equity method investor shall not separately test an investee's underlying ~~indefinite-lived intangible~~ asset(s) for impairment. However, an equity method investor shall recognize its share of any impairment charge recorded by an investee in accordance with paragraphs 19(b) and 19(c) of Opinion 18 and consider the effect, if any, of the impairment on the investor's basis difference in the assets giving rise to the investee's impairment charge .**

Change in Level of Ownership or Degree of Influence

9. **An equity method investor shall account for a share issuance by an investee as if the investor had sold a proportionate share of its investment. Any gain or loss to the investor resulting from an investee's share issuance shall be recognized in earnings.~~, subject to certain exceptions.~~**

~~10. Gain recognition would not be appropriate in situations in which subsequent capital transactions are contemplated that raise concerns about the likelihood of the investor realizing that gain or in situations in which the investee is a newly-formed, non-operating entity, a research and development entity, a start-up or development stage entity, an entity whose ability to continue in existence is in question, or an entity in another similar circumstance. In those situations, the change in the investor's proportionate share of subsidiary equity shall be accounted for as an equity transaction in consolidation. Subsequent reversal of the amount recognized in equity is prohibited.~~

Transition

10. This Issue shall be ~~is~~ effective ~~on a prospective basis~~ in fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. This Issue shall be applied prospectively. Earlier application by an entity that has previously adopted an alternative accounting policy is not permitted. The transition disclosures in paragraphs 17 and 18 of Statement 154 shall be provided, if applicable.

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

Issue No. 08-7

Title: Accounting for Defensive Intangible Assets

Dates Discussed: September 10, 2008; November 13, 2008

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

FASB Statement No. 141, *Business Combinations*

FASB Statement No. 141 (revised 2007), *Business Combinations*

FASB Statement No. 142, *Goodwill and Other Intangible Assets*

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

FASB Statement No. 157, *Fair Value Measurements*

FASB Staff Position FAS 142-3, *Determination of the Useful Life of Intangible Assets*

International Accounting Standard 38, *Intangible Assets*

International Financial Reporting Standards 3, *Business Combinations* (Revised 2008)

EITF Issue No. 02-7, "Unit of Accounting for Testing Impairment of Indefinite-Lived Intangible Assets"

Introduction

1. An intangible asset acquired in a business combination or an asset acquisition that an entity does not intend to actively use has been commonly referred to as a "defensive asset" or a "locked-up asset" because while the asset is not being actively used, it is likely contributing to an increase in the value of other assets owned by the acquiring entity.

2. Historically, when an entity acquired a business or group of assets, it typically allocated little or no value to the intangible assets that it did not intend to actively use, regardless of whether another acquirer might have continued to actively use them. However, with the issuance of Statement 141(R) and Statement 157, an intangible asset must be recognized at a value that reflects the asset's highest and best use based on market participant assumptions.

3. Upon the effective date of both Statement 141(R) and Statement 157, acquirers will generally assign a greater value to a defensive intangible asset than would have typically been assigned under Statement 141. As a result, questions have arisen in practice regarding how defensive intangible assets should be accounted for subsequent to their acquisition, including the estimated useful life that should be assigned to such assets.

Issue

4. The issues are:

Issue 1— Whether an acquired defensive asset should be accounted for as a separate unit of accounting or whether the value of an acquired defensive asset should be added as a component of an existing intangible asset (recognized or not recognized) of the acquirer

Issue 2— The useful life that should be assigned to an acquired defensive asset if that asset is accounted for as a separate unit of accounting.

Scope

5. This Issue applies to all acquired intangible assets in situations in which the acquirer does not intend to actively use the asset but intends to hold (lock up) the asset to prevent its competitors from obtaining access to the asset (a defensive intangible asset), unless the intangible asset must be expensed in accordance with other literature.[1] Defensive intangible assets could include assets that the acquirer will never actively use, as well as assets that will be used by the acquirer during a transition period when the intention of the acquirer is to discontinue the use of those assets.

6. This Issue does not address the identification of market participants, market participant assumptions, or valuation issues associated with defensive intangible assets.

Prior EITF Discussion

7. At the September 10, 2008 EITF meeting, the Task Force reached a consensus-for-exposure on Issue 1 that a defensive intangible asset should be accounted for as a separate unit of accounting. It should not be included as part of the cost of the acquirer's existing intangible asset(s) because the defensive intangible asset is separately identifiable.

8. The Task Force reached a consensus-for-exposure on Issue 2 that a defensive intangible asset should be assigned a useful life that reflects the entity's consumption of the expected benefits related to the asset. The benefit a reporting entity receives from holding a defensive intangible asset is that the entity prevents others from realizing any value from the intangible asset (defensively or otherwise). An entity shall determine a defensive intangible asset's useful life, that is, the period over which an entity consumes the expected benefits of the asset, by estimating the period over which the defensive intangible asset will diminish in fair value. The period over which a defensive intangible asset diminishes in fair value is a proxy for the period over which the reporting entity expects a defensive intangible asset to contribute indirectly to the future cash flows of the entity, in accordance with paragraph 11 of Statement 142.

9. The Task Force discussed the application of this consensus-for-exposure to acquired in-process research and development intangible assets and concluded that the consensus-for-exposure should apply to in-process research and development intangible assets acquired for defensive purposes in the same manner as other intangible assets acquired for defensive

[1] Statement 2, paragraph 11(c), requires an entity to expense the cost of a research and development intangible asset acquired in a transaction that does not qualify as a business combination if the intangible asset has no alternative future use.

purposes. However, the Task Force observed that it may be difficult to determine when an asset has been acquired for defensive purposes and requested that the FASB staff include examples in the draft abstract that illustrate the determination of whether an intangible asset meets the definition of a defensive intangible asset for purposes of applying this Issue.

10. The Task Force also observed that the determination of whether an intangible asset is a defensive intangible asset is based on the intentions of the reporting entity and may change as the reporting entity's intentions change. For example, an intangible asset that was accounted for as a defensive intangible asset on the date of acquisition may cease to be a defensive asset if an acquirer subsequently decides to actively use the asset.

11. The Task Force reached a consensus-for-exposure that no incremental disclosures beyond those already required by Statement 142 should be required for defensive intangible assets accounted for under this Issue.

Current EITF Discussion

12. At the November 13, 2008 EITF meeting, the Task Force discussed the comment letters received on the draft abstract and affirmed as a consensus the decisions reached at the September 10, 2008 EITF meeting subject to the revisions discussed below.

13. The Task Force discussed whether to provide specific guidance for acquired research and development intangible assets or whether to exclude such intangible assets from the scope of this Issue. The Task Force reached a consensus that all research and development intangible assets should be excluded from the scope of this Issue and should instead be accounted for in accordance with paragraph 16 of Statement 142, as amended by Statement 141(R).

14. The Task Force discussed other changes to the draft abstract including whether a defensive intangible asset could have an indefinite life or could be considered immediately abandoned. The Task Force reached a consensus that (a) because of a lack of market exposure or because of competitive or other factors, it would be rare for a defensive asset to have an indefinite life, and (b) a defensive intangible asset could not be considered immediately abandoned.

15. The Task Force discussed whether this Issue should require incremental disclosures other than those already required by Statement 142 and concluded that no additional disclosures were necessary.

16. Appendix 08-7A reflects changes made to the draft abstract as a result of the above decisions (added text is underlined and deleted text is ~~struck out~~).

Effective Date and Transition

17. This Issue shall be effective for intangible assets acquired on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, in order to coincide with the effective date of Statement 141(R). This Issue shall be applied prospectively. Earlier application is not permitted.

Board Ratification

18. At the November 24**,** 2008 meeting, the Board ratified the consensus reached by the Task Force in this Issue.

Status

19. No further EITF discussion is planned.

Appendix 08-7A

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

Issue No. 08-7

Title: Accounting for Defensive Intangible Assets

Dates Discussed: September 10, 2008; ~~[~~November 13, 2008~~]~~

References: FASB Statement No. 2, Accounting for Research and Development Costs
FASB Statement No. 141, *Business Combinations*
FASB Statement No. 141 (revised 2007), *Business Combinations*
FASB Statement No. 142, *Goodwill and Other Intangible Assets*
FASB Statement No. 157, *Fair Value Measurements*

Objective

1. **The objective of this Issue is to clarify how to account for defensive intangible assets subsequent to initial measurement.**

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

Background

2. An intangible asset acquired in a business combination or an asset acquisition that an entity does not intend to actively use but does intend to prevent others from using, has been commonly referred to as a "defensive asset" or a "locked-up asset" because while the asset is not being actively used, it is likely contributing to an increase in the value of other assets owned by the ~~acquiring~~ entity.

3. Historically, when an entity acquired a business or group of assets, it typically allocated little or no value to the intangible assets that it did not intend to actively use, regardless of whether another acquirer might have continued to actively use them. However, after the effective date of Statement 141(R), an intangible asset must be recognized at fair value in accordance with Statement 157, regardless of how the entity intends to use that asset.

* ~~**This draft abstract is being exposed for a public comment period that will end on October 22, 2008.**~~

4. Upon the effective date of both Statement 141(R) and Statement 157, ~~acquirers~~ entities will generally assign a greater value to a defensive intangible asset than would have typically been assigned under Statement 141. As a result, questions have arisen in practice regarding how defensive intangible assets should be accounted for subsequent to their acquisition, including the estimated useful life that should be assigned to such assets.

Scope

5. **This Issue applies to acquired intangible assets in situations in which ~~the acquirer~~ an entity does not intend to actively use the asset but intends to hold (lock up) the asset to prevent ~~its competitors~~ others from obtaining access to the asset (a defensive intangible asset), ~~unless the intangible asset must be expensed in accordance with other literature~~ except for intangible assets that are used in research and development activities.**[1]

6. A defensive intangible asset could include an asset that the ~~acquirer~~ entity will never actively use, as well as an asset that will be used by the ~~acquirer~~ entity during a transition period when the intention of the ~~acquirer~~ entity is to discontinue the use of that asset.

7. The determination of whether an intangible asset is a defensive intangible asset is based on the intentions of the reporting entity and that determination may change as the reporting entity's intentions change (for example, an intangible asset that was accounted for as a defensive intangible asset on the date of acquisition will cease to be a defensive asset if ~~an acquirer~~ the entity subsequently decides to actively use the asset). Exhibit 08-7A contains examples illustrating the determination of whether an acquired intangible asset is a defensive intangible asset.

8. This Issue does not address the identification of market participants, market participant assumptions, or valuation issues associated with defensive intangible assets.

Recognition

9. **A defensive intangible asset should be accounted for as a separate unit of accounting. It should not be included as part of the cost of ~~the acquirer's~~ an entity's existing intangible asset(s) because the defensive intangible asset is separately identifiable.**

Subsequent Measurement

10. **A defensive intangible asset shall be assigned a useful life in accordance with paragraph 11 of Statement 142.**

11. A defensive intangible asset shall be assigned a useful life that reflects the entity's consumption of the expected benefits related to that asset. The benefit a reporting entity receives from holding a defensive intangible asset is the direct and indirect cash flows resulting from the entity preventing others from realizing any value from the intangible asset (defensively or otherwise). An entity shall determine a defensive intangible asset's useful life, that is, the period over which an entity consumes the expected benefits of the asset, by estimating the period over which the defensive intangible asset will diminish in fair value. The period over which a

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[1] Intangible assets acquired in a business combination that are used in research and development activities (regardless of whether they have an alternative future use) are accounted for in accordance with paragraph 16 of Statement 142. Statement 2, paragraph 11(c), requires an entity to expense the cost of an intangible asset used in research and development ~~intangible asset~~ activities acquired in a transaction that does not qualify as a business combination if the intangible asset has no alternative future use.

defensive intangible asset diminishes in fair value is a proxy for the period over which the reporting entity expects a defensive intangible asset to contribute directly or indirectly to the future cash flows of the entity.

12. It would be rare for a defensive intangible asset to have an indefinite life because the fair value of the defensive intangible asset will generally diminish over time as a result of a lack of market exposure or as a result of competitive or other factors. Additionally, if an acquired intangible asset meets the definition of a defensive intangible asset, it cannot be considered immediately abandoned.

Transition

13.~~12.~~ This Issue shall be~~is~~ effective for intangible assets acquired on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.

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

Exhibit 08-7A

EXAMPLES OF DEFENSIVE INTANGIBLE ASSETS WITHIN THE SCOPE OF ISSUE 08-7

The following examples illustrate the determination of whether an intangible asset meets the definition of a defensive intangible asset and is within the scope of this Issue. The examples do not address all possible ways of determining whether an intangible asset meets the definition of a defensive intangible asset. The examples also do not address the determination of the useful life of intangible assets that are within the scope of this Issue.

Example 1

Company A, a consumer products manufacturer, acquires an entity that sells a product that competes with one of Company A's existing products. Company A plans to discontinue the sale of the competing product within the next six months, but will maintain the rights to the trade name, at minimal expected cost, to prevent a competitor from using the trade name. As a result, Company A's existing product ~~will~~ is expected to experience an increase in market share. Company A does not have any current plans to reintroduce the acquired trade name in the future.

Analysis: Because Company A does not intend to actively use the acquired trade name, but intends to hold the rights to the trade name to prevent ~~its competitors~~ others from using it, the trade name meets the definition of a defensive intangible asset.

Example 2

Company A acquires a group of assets, one of which is billing software developed by the selling entity for its own use. After a six month transition period, Company A plans to discontinue use of the internally developed billing software. In valuing the billing software in connection with the acquisition, Company A determines that a market participant would use the billing software, along with other assets in the asset group, for its full remaining economic life (that is, Company A does not intend to use the asset in a way that is at its highest and best use). Due to the specialized nature of the software, Company A does not believe the software could be sold to a third party without the other assets acquired.

Analysis: Although Company A does not intend to actively use the internally developed billing software after a six month transition period, Company A is not holding the internally developed software to prevent ~~its competitors~~ others from using it. Therefore, the internally developed software asset does not meet the definition of a defensive intangible asset.

~~Example 3~~

~~Company A acquires a research and development intangible asset in a business combination. The reporting entity does not intend to complete the acquired research and development project because if the project was completed, the technology developed would compete with one of Company A's existing products. Instead, Company A intends to hold the project to prevent its competitors from obtaining access to the technology. Company A believes that holding the project will delay the development of a competing product, allowing Company A to keep its current market share for a longer period than it would if the competing project was completed.~~

Analysis: ~~Because Company A does not intend to actively use the research and development intangible asset, but intends to hold the rights to the asset to prevent its competitors~~ others ~~from using it, the research and development intangible asset meets the definition of a defensive intangible asset.~~

~~**Example 4**~~

~~Company A acquires a research and development intangible asset in a business combination. The project under development is similar to an existing project of Company A and Company A does not intend to immediately pursue the acquired project. However, if Company A's existing project is not successful in the next six months, Company A intends to resume work on the acquired project. If Company A's existing project is successful, the acquired project will be abandoned and Company A would not be concerned if a third party gained access to that project.~~

Analysis: ~~Company A is not holding the research and development intangible asset to prevent its competitors from using it. Instead, Company A is holding the asset as an alternative to its existing research and development project. Therefore, the research and development intangible asset does not meet the definition of a defensive intangible asset.~~

Issue No. 08-8

Title: Accounting for an Instrument (or an Embedded Feature) with a Settlement Amount That Is Based on the Stock of an Entity's Consolidated Subsidiary

Dates Discussed: September 10, 2008; November 13, 2008

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

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

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

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

EITF Issue No. 99-1, "Accounting for Debt Convertible into the Stock of a Consolidated Subsidiary"

EITF Issue No. 00-4, "Majority Owner's Accounting for a Transaction in the Shares of a Consolidated Subsidiary and a Derivative Indexed to the Noncontrolling Interest in That Subsidiary"

EITF Issue No. 00-6, "Accounting for Freestanding Derivative Financial Instruments Indexed to, and Potentially Settled in, the Stock of a Consolidated Subsidiary"

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

EITF Issue No. 07-5, "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock"

Introduction

1. Current generally accepted accounting principles (GAAP) treat the application of the scope exception in paragraph 11(a) of Statement 133 to a financial instrument differently than its application to an embedded feature in situations in which the payoff to the counterparty is based, in whole or in part, on the stock of an entity's consolidated subsidiary. In Issue 00-6, which applies to freestanding derivative instruments entered into by the parent, the Task Force reached a consensus that the stock of a subsidiary is not considered equity of the parent (reporting entity) and, therefore, that derivatives indexed to and potentially settled in the stock of a consolidated subsidiary do not meet the scope exception in paragraph 11(a) of Statement 133. However, in Issue 99-1, the Task Force concluded that debt that is convertible into the stock of a consolidated subsidiary should be accounted for in accordance with Opinion 14 because the embedded conversion option does meet the scope exception in paragraph 11(a) of Statement 133, as long as the embedded conversion option is not required to be classified as a liability under other applicable literature, such as Issue 00-19.

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

3. Questions have arisen, particularly after the finalization of Statement 160, as to whether financial instruments (and embedded features) for which the payoff to the counterparty is based, in whole or in part, on the stock of a consolidated subsidiary should be precluded from being considered indexed to the entity's own stock in the consolidated financial statements of the parent.

4. Upon the adoption of Statement 160, the noncontrolling interest (that is, the portion of subsidiary stock that is held by owners other than the parent) will be reported in the consolidated statement of financial position within equity, separately from the parent's equity. However, the guidance in Statement 160 did not amend any other accounting literature that provides guidance for financial instruments that are linked to the stock of a consolidated subsidiary (for example, warrants to purchase shares of a consolidated subsidiary), including Issue 00-6.

5. After the effective date of Statement 160, financial instruments (and embedded features) for which the payoff to the counterparty is based, in whole or in part, on the stock of a consolidated subsidiary will qualify for the second part of the scope exception in paragraph 11(a) of Statement 133, as long as they are not required to be classified as liabilities under other applicable literature, such as Statement 150 or Issue 00-19. However, Statement 160 did not address whether financial instruments (or embedded features) for which the payoff to the counterparty is based, in whole or in part, on the stock of a consolidated subsidiary should qualify for the first part of the scope exception in paragraph 11(a) of Statement 133, that is, being indexed to the reporting entity's own stock.

6. This Issue addresses the determination of whether a financial instrument for which the payoff to the counterparty is based, in whole or in part, on the stock of an entity's consolidated subsidiary, is indexed to the reporting entity's own stock and therefore should not be precluded from qualifying for the first part of the scope exception in paragraph 11(a) of Statement 133 or from being within the scope of Issue 00-19.

Issues

7. The issues are:

Issue 1— Whether freestanding financial instruments (or an embedded feature) within the scope of this Issue are precluded from being considered indexed to the entity's own stock in the consolidated financial statements of the parent

Issue 2— If the Task Force reaches a consensus on Issue 1 that a freestanding financial instrument (or an embedded feature) within the scope of this Issue is not precluded from being considered indexed to the entity's own stock in the

consolidated financial statements of the parent, where a freestanding financial instrument within the scope of this Issue that is an equity instrument (including an embedded feature that is separately recorded in equity) should be classified within consolidated stockholders' equity of the parent.

Scope

8. This Issue applies to a freestanding financial instrument (and an embedded feature) for which the payoff to the counterparty is based, in whole or in part, on the stock of a consolidated subsidiary for purposes of determining whether such an instrument (or an embedded feature) is precluded from being considered indexed to the entity's own stock in the consolidated financial statements of the parent. This Issue applies to instruments (and embedded features) in the consolidated financial statements of the parent, whether those instruments were entered into by the parent or the subsidiary.

9. This Issue does not affect the accounting for instruments (or embedded features) that would not otherwise qualify for the scope exception in paragraph 11(a) of Statement 133. For example, freestanding instruments that are classified as liabilities (or assets) under Statement 150 and put and call options embedded in a noncontrolling interest that is accounted for as a financing arrangement under Issue 00-4 are not affected by the consensus in this Issue.

Prior EITF Discussion

10. The Task Force reached a consensus-for-exposure on Issue 1 that provided that the subsidiary is a substantive entity, a freestanding financial instrument (or an embedded feature) within the scope of this Issue is not precluded from being considered indexed to the entity's own stock in the consolidated financial statements of the parent. The consensus in Issue 07-5 shall be applied when determining whether the financial instrument (or embedded feature) is indexed to the entity's own stock and shall be considered in conjunction with other applicable GAAP (for example, Issue 00-19) in determining classification of the instrument.

11. The Task Force reached a consensus-for-exposure on Issue 2 that an equity-classified instrument (including an embedded feature that is separately recorded in equity under applicable GAAP) within the scope of this Issue shall be presented as a component of noncontrolling interest in the consolidated financial statements, whether the instrument was entered into by the parent or the subsidiary. However, if an equity-classified instrument within the scope of this Issue was entered into by the parent and expires unexercised, the carrying amount of that instrument would be reclassified from the noncontrolling interest to the controlling interest.

Current EITF Discussion

12. At the November 13, 2008 EITF meeting, the Task Force discussed the comment letters and informal comments received on the draft abstract. The Task Force discussed whether to include guidance in this Issue related to the definition of a substantive entity and, in addition, whether to further clarify the recognition guidance in this Issue by including an example of its application. The Task Force observed that entities should apply judgment in the application of the scope of this Issue and agreed not to clarify either of these two items. The Task Force directed the FASB staff to further clarify in the scope of this Issue the application of Statement 150.

13. The Task Force affirmed as a consensus the decisions reached at the September 10, 2008 EITF meeting subject to the additional revisions. Appendix 08-8A reflects changes made to the draft abstract as a result of the above decisions added text is underlined and deleted text is ~~struck out~~).

Effective Date and Transition

14. The Task Force affirmed as a consensus that this Issue shall be effective for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. Earlier application is not permitted. The consensus shall be applied to outstanding instruments as of the beginning of the fiscal year in which this Issue is initially applied. The fair value of an outstanding instrument that was previously classified as an asset or liability shall become its net carrying amount at that date (that is, its current fair value). The net carrying amount shall be reclassified to noncontrolling interest. Gains or losses recorded during the period that the instrument was classified as an asset or liability shall not be reversed.

15. The transition disclosures in paragraphs 17 and 18 of Statement 154 shall be provided.

Board Ratification

16. At the November 24, 2008 meeting, the Board ratified the consensus reached by the Task Force in this Issue.

Status

17. No further EITF discussion is planned.

Exhibit 08-8A

EITF ABSTRACTS (DRAFT[*])

Issue No. 08-8

Title: Accounting for an Instrument (or an Embedded Feature) with a Settlement Amount That Is Based on the Stock of an Entity's Consolidated Subsidiary

Dates Discussed: September 10, 2008; [November 13, 2008]

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

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

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

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

EITF Issue No. 99-1, "Accounting for Debt Convertible into the Stock of a Consolidated Subsidiary"

EITF Issue No. 00-4, "Majority Owner's Accounting for a Transaction in the Shares of a Consolidated Subsidiary and a Derivative Indexed to the Noncontrolling Interest in That Subsidiary"

EITF Issue No. 00-6, "Accounting for Freestanding Derivative Financial Instruments Indexed to, and Potentially Settled in, the Stock of a Consolidated Subsidiary"

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

EITF Issue No. 07-5, "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock"

Objective

1. **The objective of this Issue is to clarify whether a financial instrument for which the payoff to the counterparty is based, in whole or in part, on the stock of an entity's consolidated subsidiary is indexed to the reporting entity's own stock and therefore should not be precluded from qualifying for the first part of the scope exception in paragraph 11(a) of Statement 133 or from being within the scope of Issue 00-19.**

[*] **This draft abstract is being exposed for a public comment period that will end on October 22, 2008.**

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

Background

2. An entity or its consolidated subsidiary may enter into a freestanding financial instrument (or an embedded feature) for which the payoff to the counterparty is based, in whole or in part, on the stock of a consolidated subsidiary. Examples of freestanding contracts include written call or put options (and warrants) on the stock of the consolidated subsidiary, purchased call or put options on the stock of the consolidated subsidiary, and forward sales or purchase contracts on the stock of the consolidated subsidiary. Examples of embedded features include debt that is convertible into the stock of the consolidated subsidiary issued by the entity or its consolidated subsidiary.

3. Paragraph 11(a) of Statement 133 provides that a reporting entity shall not consider a contract to be a derivative if it is both (a) indexed to its own stock and (b) classified in stockholders' equity in its statement of financial position. Issue 07-5 requires that if a financial instrument (or embedded feature) is not considered to be indexed to an entity's own stock, equity classification would be precluded and the instrument would not be within the scope of Issue 00-19.

Scope

4. **This Issue applies to freestanding financial instruments (and embedded features) for which the payoff to the counterparty is based, in whole or in part, on the stock of a consolidated subsidiary. This Issue applies to those instruments (and embedded features) in the consolidated financial statements of the parent, whether the instrument was entered into by the parent or the subsidiary.**

5. This Issue does not affect the accounting for instruments (or embedded features) that would not otherwise qualify for the scope exception in paragraph 11(a) of Statement 133. For example, freestanding instruments that are classified as liabilities (or assets) under Statement 150 and put and call options embedded in a noncontrolling interest that is accounted for as a financing arrangement under Issue 00-4 are not affected by the consensus in this Issue.

Recognition

6. **Freestanding financial instruments (and embedded features) for which the payoff to the counterparty is based, in whole or in part, on the stock of a consolidated subsidiary are not precluded from being considered indexed to the entity's own stock in the consolidated financial statements of the parent if the subsidiary is a substantive entity. If the subsidiary is not a substantive entity, the instrument or embedded feature would not be considered indexed to the entity's own stock.** ~~**The SEC Observer reiterated the SEC staff's longstanding position that written options that do not qualify for equity classification should be reported at fair value and subsequently marked to fair value through earnings.**~~

7. If the subsidiary is considered to be a substantive entity, the consensus in Issue 07-5 shall be applied to a~~the~~ freestanding financial instrument (or an embedded feature) within the scope of this Issue in order to determine whether it is indexed to the entity's own stock and should be considered in conjunction with other applicable generally accepted accounting principles (GAAP) (for example, Issue 00-19) in determining the classification of the freestanding financial instrument (or ~~an~~ embedded feature) in the financial statements of the entity.

Measurement

8. **The SEC Observer reiterated the SEC staff's longstanding position that written options that do not qualify for equity classification should be reported at fair value and subsequently marked to fair value through earnings.**

Other Presentation Matters

9. An equity-classified instrument (including an embedded feature that is separately recorded in equity under applicable GAAP) within the scope of this Issue shall be presented as a component of noncontrolling interest in the consolidated financial statements whether the instrument was entered into by the parent or the subsidiary. However, if an equity-classified instrument within the scope of this Issue was entered into by the parent and expires unexercised, the carrying amount of the instrument shall be reclassified from the noncontrolling interest to the controlling interest.

Transition

10. This Issue ~~is~~ shall be effective for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. Early adoption is not permitted. The consensus shall be applied to outstanding instruments as of the beginning of the fiscal year in which this Issue is initially applied. The fair value of an outstanding instrument~~contract~~ that was previously classified as an ~~derivative~~ asset or liability shall become its net carrying amount at that date (that is, the current fair value). The net carrying amount shall be reclassified to noncontrolling interest. Gains or losses recorded during the period that the instrument~~contract~~ was classified as an ~~derivative~~ asset or liability shall not be reversed.

11. The transition disclosures in paragraphs 17 and 18 of Statement 154 shall be provided.

Amendments to Other Literature

12. ARB 51, paragraph 27, is amended as follows: [Added text is underlined and deleted text is ~~struck out~~.]

> Only the following ~~a financial instrument issued by a subsidiary that is classified as equity in the subsidiary's financial statements~~ can be a noncontrolling interest in the consolidated financial statements:~~.~~
>
> a. A financial instrument (or an embedded feature) issued by a subsidiary that is classified as equity in the subsidiary's financial statements
>
> b. A financial instrument (or an embedded feature) issued by a parent or a subsidiary for which the payoff to the counterparty is based, in whole or in

part, on the stock of a consolidated subsidiary, that is considered indexed to the entity's own stock in the consolidated financial statements of the parent and that is classified as equity.

A financial instrument issued by a subsidiary that is classified as a liability in the subsidiary's financial statements based on the guidance in other standards is not a noncontrolling interest because it is not an ownership interest. Examples of other standards that provide guidance for classifying instruments issued by a subsidiary are:

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

b. FASB Staff Position FAS 150-3, *Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests under FASB Statement No. 150*

c. SEC Accounting Series Release No. 268, *Presentation in Financial Statements of "Redeemable Preferred Stocks."*

13. Issue 99-1 and Issue 00-6 are superseded.
14. Issue 00-4 is amended as follows:
    a. Paragraph 16 **(only the affected portion of this paragraph is shown)**:

Derivative 2—Depending on how the derivative was issued, one of three different accounting methods applies. If Derivative 2 were issued as a single freestanding instrument, under Statement 150 it is accounted for in its entirety as a liability (or an asset in some circumstances), initially and subsequently measured at fair value. If the written put option and the purchased call option in Derivative 2 were issued as freestanding instruments, the written put option is accounted for under Statement 150 as a liability measured at fair value, and the purchased call option would be accounted for under Issue 00-19, Issue 07-5, and Issue 08-8~~00-6~~. Under both of those situations, the noncontrolling interest is accounted for separately from the derivatives under applicable guidance. However, if the written put option and purchased call option are embedded in the shares (noncontrolling interest) and the shares are not mandatorily redeemable, the freestanding instrument is not in the scope of

Statement 150 and continues to be accounted for under this Issue with the parent consolidating 100 percent of the subsidiary.

15. Issue 00-19 is amended as follows:

    a. Paragraph 3:

    This Issue applies only to freestanding derivative financial instruments (for example, forward contracts, options, and warrants). This Issue applies to security price guarantees or other financial instruments indexed to, or otherwise based on, the price of the company's stock that are issued in connection with a ~~purchase~~ business combination and that are accounted for as contingent consideration. This Issue does not address the accounting for either the derivative component or the financial instrument when the derivative component is embedded in and not detachable from the financial instrument. This Issue also does not address the accounting for contracts that are issued (a) to compensate employees or (b) to acquire goods or services from nonemployees when performance has not yet occurred. However, this Issue applies to contracts issued to acquire goods or services from nonemployees when performance has occurred. This Issue does not address the accounting for a written put option and a purchased call option embedded in the shares of a noncontrolling interest of a consolidated subsidiary if the arrangement is accounted for as a financing under ~~contracts that are indexed to, and potentially settled in, the stock of a consolidated subsidiary (see discussion of Issue No. 00-6, "Accounting for Freestanding Derivative Financial Instruments Indexed to, and Potentially Settled in, the Stock of a Consolidated Subsidiary," and~~ Issue No. 00-4, "Majority Owner's Accounting for a Transaction in the Shares of a Consolidated Subsidiary and a Derivative Indexed to the ~~Minority~~ Noncontrolling Interest in That Subsidiary," (See further discussion in paragraph~~s~~ 62 ~~and 63~~ of the STATUS section).

    b. Paragraph 63:

    ~~The Task Force discussed another related issue in t Issue No. 00-6, "Accounting for Freestanding Derivative Financial Instruments Indexed to, and Potentially Settled in, the Stock of a Consolidated Subsidiary." Issue 00-6 addresses how freestanding derivative instruments entered into by a parent company that are indexed to, and potentially settled in, the stock of a~~

~~consolidated subsidiary should be classified and measured in the consolidated financial statements. [Note: Issue 00-6 has been partially nullified by Statement 150. See STATUS section of Issue 00-6 for details.]~~

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

Issue No. 08-9

Title: Milestone Method of Revenue Recognition

Dates Discussed: November 13, 2008

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

FASB Concepts Statement No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*

AICPA Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*

AICPA Statement of Position 97-2, *Software Revenue Recognition*

AICPA Statement of Position 00-2, *Accounting by Producers or Distributors of Films*

SEC Staff Accounting Bulletin No. 104, Topic 13, *Revenue Recognition*

EITF Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables"

EITF Issue No. 08-1, "Revenue Arrangements with Multiple Deliverables"

Introduction

1. Entities often enter into revenue arrangements that provide for multiple payment streams. For example, a service provider may receive an up-front payment upon signing a service contract with a customer and then receive additional payments as services are provided to that customer. Other examples can be more complex, such as in biotechnology and pharmaceutical research and development arrangements, because they may involve multiple deliverables, up-front payments, payments for specific services, and payments upon achievement of certain clinical milestones. If delivery of a single unit of accounting spans multiple accounting periods or deliverables, an entity needs to determine how to allocate the multiple payment streams (arrangement consideration) attributable to that unit of accounting to those accounting periods.

2. Revenue recognition for a single unit of accounting depends on the nature of the deliverable(s) composing that unit of accounting, the corresponding revenue recognition criteria, and whether those criteria have been met. Current guidance does not explicitly address many of the issues encountered by entities in practice. As a result, entities have adopted various accounting methods to attribute revenue in arrangements that have multiple payment streams that are accounted for as a single unit of accounting. Those practice issues can generally be arranged into the following two categories: those affecting the determination of the unit of accounting under Issue 00-21 and those related to revenue recognition attribution methods. The following issues have been encountered in practice when entities consider the appropriate attribution model for revenue with multiple payment streams:

Unit of Accounting:

1. Whether "access or standing ready to perform" can be a deliverable
2. Whether and how contingent deliverables should impact revenue recognition

3. Whether the fair value threshold requirement of Issue 00-21 needs to be revised.

Revenue Recognition:

4. Whether to issue guidance on the application of the milestone method of revenue recognition
5. How the proportional performance model should be applied to a single unit of accounting composed of multiple deliverables
6. Whether recognition of revenue on a straight-line basis is acceptable when the goods or services may not be delivered ratably over the period.

Prior EITF Discussion

3. At the September 10, 2008 EITF meeting, the Task Force agreed with the FASB staff recommendation to address Issues 3 and 4 as two separate EITF Issues for discussion at a future EITF meeting since each of those Issues has a separate scope. Issue 08-9 focuses on Issue 4, that is, whether the milestone method is an acceptable attribution method of revenue recognition. Refer to Issue 08-1 for further discussion of Issues 1–3, 5, and 6.

4. The Task Force discussed the Working Group's recommendations on Issue 4 and the application of the milestone method as one type of proportional performance model of revenue recognition. As part of its discussion, the Task Force reached a tentative conclusion on the following definition of a milestone:

> An event that, under the terms of the arrangement, if achieved, may entitle the vendor to additional compensation based on either the vendor's performance or a specific outcome resulting from the vendor's performance.

5. Because the Task Force views the milestone payment amount as additional compensation that (a) becomes fixed and determinable when the milestone is reached and (b) is earned based on either the level of the vendor's performance or a specific outcome resulting from the vendor's performance, the Task Force agreed that the milestone payment may relate to past performance and may be an appropriate indicator of the value provided to the customer by way of the vendor's performance for that aspect of that arrangement.

6. The Task Force reached a tentative conclusion that because the objective of the milestone method is to determine whether a milestone payment amount is indicative of value transferred to a customer, the milestone method may be a valid application of the proportional performance model when the milestone is substantive. Determining whether a milestone is substantive is a matter of judgment. The Task Force tentatively concluded that the following principle should be applied to each milestone in making a determination as to whether the milestone is substantive:

> The amount of the payment associated with the milestone is commensurate with either the effort required to achieve the milestone or the enhancement of the value of the delivered item(s) in a unit of accounting as a result of the achievement of the milestone. The payment associated with the milestone relates solely to past performance and is reasonable when considering the deliverables and payment terms (including other potential milestone payments) within the arrangement.

7. The Task Force also tentatively concluded that a milestone shall not be considered substantive if any portion of the associated milestone payment relates to the remaining deliverables in the unit of accounting. Furthermore, in order to recognize revenue for a milestone payment in the period that the milestone is achieved, that milestone payment must be substantive in its entirety. It is not appropriate to bifurcate a milestone payment into substantive and non-substantive components. The Task Force tentatively concluded that if an individual milestone is not considered to be substantive, the entity would not be precluded from using the milestone method for other milestones in the arrangement.

8. The Task Force also tentatively agreed that while the milestone method is an acceptable revenue attribution model, it is not necessarily the only acceptable revenue attribution model available, even when an arrangement contains substantive milestones.

9. The Task Force discussed whether the proposed guidance should include factors that would assist entities in assessing whether a milestone payment is substantive or whether the application of the milestone method could be illustrated through examples. The Task Force requested that the FASB staff develop examples for discussion at a future meeting that illustrate how an entity might determine when a milestone payment is substantive. In addition, the Task Force requested that the FASB staff seek user input on whether the proposed guidance should include additional disclosure requirements.

Current EITF Discussion

10. At the November 13, 2008 EITF meeting, the Task Force discussed the scope of Issue 08-9 and the following Issues:

Issue 1— When a vendor should assess whether a milestone is substantive

Issue 2— What the criteria should be for determining whether a milestone is substantive.

11. The Task Force discussed the scope of this Issue and tentatively agreed that this Issue may be applied to all contractual revenue arrangements (whether written, oral, or implied, and hereinafter referred to as "arrangements") under which a vendor satisfies its performance obligations to a customer over a period of time and when a portion or all of the arrangement consideration is contingent upon the achievement of a milestone(s), unless the unit of accounting that includes the milestone is accounted for under SOP 81-1 or SOP 97-2. The Task Force also tentatively agreed that a milestone is an event:

a. That can only be achieved based in whole or in part on the vendor's performance or on the occurrence of a specific outcome resulting from the vendor's performance
b. For which there is substantial uncertainty at the date the arrangement is entered into that the event will be achieved
c. That would result in additional payments being due to the vendor, if achieved.

12. The Task Force also discussed whether the scope of this Issue should be limited to deliverables or to a unit of accounting if the revenue recognition convention for that deliverable

or unit of accounting is not within the scope of other authoritative literature. The Task Force was not asked to reach a tentative conclusion, but agreed to proceed with a discussion of Issues 1 and 2 under the presumption that this Issue could not be applied if the unit of accounting to which the milestone relates is accounted for under SOP 81-1 and SOP 97-2, and to reconsider the scope at a future meeting.

13. The Task Force also tentatively agreed that the guidance in this Issue is not the only acceptable revenue attribution model for arrangement consideration contingent upon achievement of a milestone (whether or not the milestone is substantive) and that a vendor should apply the revenue recognition model most appropriate to the facts and circumstances. The Task Force considered whether to require application of the milestone method to all substantive milestone payments but tentatively concluded that because the Task Force views the milestone method as one application of the proportional performance method of revenue recognition there may be other applications of the proportional performance method that might be used. The Task Force also tentatively agreed that a vendor's policy for recognizing arrangement consideration contingent upon achievement of a milestone shall be applied consistently to similar arrangements.

14. Certain members of the Task Force noted that the issues presented did not provide recognition guidance for situations in which a milestone is not considered substantive. Some Task Force members asked whether it should; however, the Task Force did not reach a tentative conclusion on this additional question.

15. On Issue 1, the Task Force discussed whether to require an assessment of whether a milestone is substantive only at the inception of the arrangement or at inception and as each milestone is achieved, but was not asked to reach a consensus.

16. On Issue 2, the Task Force affirmed its tentative conclusion from the previous meeting that if an individual milestone is not considered to be substantive, an entity would not be precluded from using the milestone method for other milestones in the arrangement. The Task Force discussed, but was not asked to reach a conclusion on whether this Issue should identify factors to determine when an entity could conclude that a milestone is substantive.

17. The Task Force also affirmed its tentative conclusion from the previous meeting that the consideration earned from the achievement of a milestone must relate solely to past performance. The Task Force also discussed, but was not asked to reach a conclusion on the measurement criteria that should be applied to the milestone payment when a vendor assesses whether the achievement of a milestone relates solely to past performance including whether the consideration to be received upon achievement of that milestone relates solely to past performance.

Status

18. Further discussion is expected at a future meeting.

Issue No. 08-10

Title: Selected Statement 160 Implementation Questions

Date Discussed: November 13, 2008

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

FASB Statement No. 141 (revised 2007), *Business Combinations*

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

FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*

FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*

FASB Interpretation No. 43, *Real Estate Sales*

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

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

APB Opinion No. 29, *Accounting for Nonmonetary Transactions*

AICPA Statement of Position 78-9, *Accounting for Investments in Real Estate Ventures*

EITF Issue No. 98-8, "Accounting for Transfers of Investments That Are in Substance Real Estate"

Introduction

1. Statement 160 amends ARB 51 and establishes the accounting for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Statement 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Statement 160 applies to all entities that prepare consolidated financial statements except not-for-profit organizations. Upon deconsolidation of a subsidiary, ARB 51, paragraph 36, as amended by Statement 160, requires a parent to record any retained interest in the subsidiary at fair value and recognize a gain or loss in net income as the difference between:

a. The aggregate of:
   (1) The fair value of any consideration received
   (2) The fair value of any retained noncontrolling investment in the former subsidiary (including any accumulated other comprehensive income attributable to the noncontrolling interest) at the date the subsidiary is deconsolidated

(3) The carrying amount of any noncontrolling interest in the former subsidiary … at the date the subsidiary is deconsolidated

b. The carrying amount of the former subsidiary's assets and liabilities.

2. There is no scope limitation within Statement 160 in applying this guidance except with respect to a nonreciprocal transfer to owners, which is accounted for in accordance with Opinion 29. While Statement 160 provides general guidance on accounting for the deconsolidation of a subsidiary, some constituents have raised concerns that other authoritative guidance exists that may conflict with Statement 160 for the recognition of a gain or loss upon deconsolidation of subsidiaries when the subsidiary is in-substance real estate or the transaction involves an equity method investee or joint venture.

Issues

3. The issues are:

Issue 1— How an entity should account for the transfer of an interest in a subsidiary that is in substance real estate

Issue 2— How an entity should account for the transfer of an interest in a subsidiary to an equity method investee that results in deconsolidation of the subsidiary

Issue 3— How an entity should account for the transfer of an interest in a subsidiary in exchange for a joint venture interest that results in deconsolidation of the subsidiary.

Scope

4. This Issue applies to transfers of interests in a consolidated subsidiary in transactions specified in Issues 1–3.

Current EITF Discussion

5. At the November 13, 2008 EITF meeting, the Task Force reached a consensus-for-exposure on Issue 1 that an entity should not apply Statement 160 to transfers of interests in a subsidiary that are in substance real estate but should account for the transfers as sales of real estate in accordance with Statement 66 and related literature. Some Task Force members noted that they believe that Statement 66 gives more specific guidance on the accounting for sales of real estate than Statement 160. Other Task Force members noted that the application of Statement 160 to transactions that would also qualify as sales of in-substance real estate could result in transactions with similar economics being accounted for under two different recognition models. Some Task Force members observed that this decision may be inconsistent with Statement 159, which allows the fair value option to be applied to an equity interest that is in-substance real estate. Since the Board specifically considered and rejected a scope exclusion for in-substance real estate from Statement 159 in their original deliberations, the Task Force decided not to reconsider the scope of Statement 159.

6. On Issues 2 and 3 the Task Force reached a consensus-for-exposure that Statement 160 should be applied when accounting for transfers of interests of subsidiaries to an equity method investee including exchanges of a subsidiary for an interest in a joint venture.

7. Some Task Force members expressed concerns that questions may continue to arise involving the application of Statement 160. Some of those concerns related to situations in which a transferred subsidiary may have been structured to achieve a particular accounting result. Task Force members with those concerns noted that other accounting literature would apply to that type of transaction if the assets (and liabilities) did not reside within the subsidiary entity. To address those concerns, the Task Force reached a consensus-for-exposure to amend paragraphs 32-37 of ARB 51, which provide guidance on partial sales of interests in a subsidiary, including sales that result in deconsolidation of the subsidiary, to apply only when the subsidiary is a substantive entity.

Effective Date and Transition

8. The Task Force reached a consensus-for-exposure that this Issue shall be effective for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years, consistent with the effective date of Statement 160. This Issue shall be applied prospectively. The transition disclosures in paragraphs 17 and 18 of Statement 154 shall be provided, if applicable.

Board Ratification

9. At the November 24, 2008 meeting, the Board ratified the consensus-for-exposure reached by the Task Force in this Issue and approved the issuance of a draft abstract for a public comment period.

Status

10. The draft abstract will be posted to the FASB website after November 30, 2008. Comments on the draft abstract are due by December 26, 2008. Further discussion is expected at a future meeting.

Appendix 08-10A

EITF ABSTRACTS (DRAFT*)

Issue No. 08-10

Title: Selected Statement 160 Implementation Questions

Dates Discussed: November 13, 2008; [January 15, 2009]

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

FASB Statement No. 141 (revised 2007), *Business Combinations*

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

FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*

FASB Interpretation No. 43, *Real Estate Sales*

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

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

APB Opinion No. 29, *Accounting for Nonmonetary Transactions*

AICPA Statement of Position 78-9, *Accounting for Investments in Real Estate Ventures*

EITF Issue No. 98-8, "Accounting for Transfers of Investments That Are in Substance Real Estate"

Objective

1. **The objective of this Issue is to clarify the accounting for certain transactions involving a transfer of an interest in a subsidiary after the effective date of Statement 160.**

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

Background

2. Statement 160 establishes the accounting for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Statement 160 amends ARB 51 and is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008.

*** This draft abstract is being exposed for a public comment period that will end on December 26, 2008.**

Statement 160 applies to all entities that prepare consolidated financial statements except not-for-profit organizations. Upon deconsolidation of a subsidiary, Statement 160 requires a parent to record any retained interest in the subsidiary at fair value and recognize a gain or loss in net income as the difference between:

a. The aggregate of:
   (1) The fair value of any consideration received
   (2) The fair value of any retained noncontrolling investment in the former subsidiary (including any accumulated other comprehensive income attributable to the noncontrolling interest) at the date the subsidiary is deconsolidated
   (3) The carrying amount of any noncontrolling interest in the former subsidiary (including any accumulated other comprehensive income attributable to the noncontrolling interest) at the date the subsidiary is deconsolidated
b. The carrying amount of the former subsidiary's assets and liabilities.

3. There is no scope limitation within Statement 160 in applying the above guidance except with respect to a nonreciprocal transfer to owners, which is accounted for in accordance with Opinion 29. While Statement 160 provides general guidance on accounting for the deconsolidation of a subsidiary, some constituents have raised concerns that other authoritative guidance exists that may conflict with Statement 160 for the recognition of a gain or loss upon deconsolidation of subsidiaries when the subsidiary is in-substance real estate or the transaction involves an equity method investee or joint venture.

Scope

4. **This Issue applies to the following transfers of interests of a consolidated subsidiary:**

   a. **Transfers of interests in a consolidated subsidiary that are in substance real estate**

   b. **Transfers of interests in a consolidated subsidiary to an equity method investee that results in deconsolidation of the subsidiary**

   c. **Transfer of an interest in a consolidated subsidiary in exchange for an interest in a joint venture that results in deconsolidation of the subsidiary.**

Amendments to ARB 51 and Opinion 18

5. This Issue amends ARB 51 to exclude from its scope transfers of interests in a subsidiary that are in-substance real estate. This Issue amends Opinion 18 to clarify that transfers of an interest within the scope of this Issue should be accounted for in accordance with ARB 51. It also amends ARB 51 to clarify that the partial sale and deconsolidation provisions of ARB 51 do not apply to subsidiaries that are not substantive entities.

Effective Date and Transition

6. This Issue shall be effective for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. This Issue shall be applied prospectively.

7. The transition disclosures in paragraphs 17 and 18 of Statement 154 shall be provided, if applicable.

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

Exhibit 08-10A

AMENDMENTS TO ARB 51 AND OPINION 18

1. ARB 51 is amended as follows: [Added test is underlined and deleted text is ~~struck out~~.]

   a. Paragraph 32:

   A parent's ownership interest in a subsidiary might change while the parent retains its controlling financial interest in the subsidiary. For example, a parent's ownership interest in a subsidiary might change if (a) the parent purchases additional ownership interests in its subsidiary, (b) the parent sells some of its ownership interests in its subsidiary, (c) the subsidiary reacquires some of its ownership interests, or (d) the subsidiary issues additional ownership interests. Paragraphs 32–34 are not applicable if the subsidiary is in-substance real estate or is not a substantive entity.

   b. Paragraph 35:

   A parent shall deconsolidate a subsidiary as of the date the parent ceases to have a controlling financial interest in the subsidiary. Paragraphs 35–37 are not applicable if the subsidiary is in-substance real estate or is not a substantive entity. Examples of events that result in deconsolidation of a subsidiary are:

   a. A parent sells all or part of its ownership interest in its subsidiary, and as a result, the parent no longer has a controlling financial interest in the subsidiary.

   b. The expiration of a contractual agreement that gave control of the subsidiary to the parent.

   c. The subsidiary issues shares, which reduces the parent's ownership interest in the subsidiary so that the parent no longer has a controlling financial interest in the subsidiary.

   d. The subsidiary becomes subject to the control of the government, court, administrator, or regulator.

2. Opinion 18 is amended as follows:

   a. Paragraph 19(a):

   Intercompany profits and losses should be eliminated until realized by the investor or investee as if a corporate joint venture or investee company were consolidated. ARB 51 provides guidance for changes in a parent's ownership interest in a subsidiary and for deconsolidation of a subsidiary. If an investor transfers an interest in a subsidiary to a corporate joint venture or investee company, the transfer is accounted for in accordance with ARB 51.

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 January 15, 2009 meeting are considered either high priority issues or issues on which meaningful progress can be made within the staff's given complement of resources. The staff's prioritization of issues is based primarily on the FASB staff's understanding of the level of diversity in practice created by each respective Issue, the financial reporting implications of that diversity, the current interaction, if any, of the Issues with active Board projects, and current resource availability among the staff (with respect to both time and relevant technical expertise).

Issue No.	Description	Date Added	Date(s) Discussed	Next Meeting	EITF Liaison	FASB Staff	Immediate Plans	Due Date - Next Deliverable
08-1	Revenue Arrangements with Multiple Deliverables	1/08	3/08, 6/08, 9/08, 11/08	3/09	Uhl	Maples/ Elsbree	The FASB staff will prepare an Issue Supplement for a future meeting	Draft abstract comment period closes January 30, 2009 March 18-19, 2009 EITF meeting
08-09	Milestone Method of Revenue Recognition[1]	10/08	11/08	3/09	Uhl	Maples/ Elsbree	The FASB staff will prepare an Issue Supplement for a future meeting	March 18-19, 2009 EITF meeting

[1] This Issue was previously discussed in conjunction with Issue No. 08-1, "Revenue Arrangements with Multiple Deliverables"

Issue No.	Description	Date Added	Date(s) Discussed	Next Meeting	EITF Liaison	FASB Staff	Immediate Plans	Due Date - Next Deliverable
08-10	Selected Statement 160 Implementation Questions	10/08	11/08	1/09	Hanson	Bonn/ Nickell	The FASB staff will prepare an Issue Supplement for a future meeting	Draft abstract comment period closes December 26, 2008 January 15 2009 EITF meeting
08-I	Accounting for Share Lending Arrangements in Contemplation of Convertible Debt Issuances and the Related Determination of Earnings per Share	10/08		3/09	Uhl	Homant/ Malcolm	The FASB staff will prepare an Issue Summary for a future meeting	March 18-19, 2009 EITF meeting
09-A	Application of Issue 08-1 to Software Sales	11/08		3/09	TBD	Bonn/ Maples	The FASB staff will prepare an Issue Summary for a future meeting	March 18-19, 2009 EITF meeting

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

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