FINANCIAL ACCOUNTING STANDARDS BOARD
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February 12, 2013

TO: MEMBERS OF THE FASB EMERGING ISSUES TASK FORCE

Included are the final minutes of the January 17, 2013 meeting of the FASB Emerging Issues Task Force and an inventory of open issues for future EITF meetings. Also included as exhibits are the Accounting Standards Updates for Issues 11-A and 12-D, and the proposed Accounting Standards Updates for Issues 13-A and 13-C.

Confidential marked versions of the minutes and the exhibits showing changes from the February 1, 2013 Fatal Flaw draft for the Accounting Standards Update for Issue 11-A and the proposed Accounting Standards Updates for Issues 13-A and 13-C, and from the February 4, 2013 Fatal Flaw draft for the Accounting Standards Update for Issue 12-D, are being distributed under separate cover. After your review, please discard the confidential marked versions.

Board Ratification
On Thursday, January 31, 2013, the Board ratified the consensuses reached by the Task Force on Issues 11-A and 12-D. The Accounting Standards Updates for these Issues are expected to be posted to the FASB website the week of February 25, 2013. The Board also ratified the consensuses-for-exposure reached by the Task Force on Issues 13-A and 13-C. The Board approved 60-day exposure periods for each of the proposed Updates. The proposed Updates are expected to be posted to the FASB website the week of February 18, 2012.

The next EITF meeting is scheduled for March 14, 2013. A proposed agenda is included with these final minutes.

Please call me at 203.956.5317 if you have any questions.

Sincerely,
Rahul Gupta
Practice Fellow
rgupta@fasb.org

Emerging Issues Task Force
Meeting Minutes
January 17, 2013

MINUTES OF THE JANUARY 17, 2013 MEETING OF THE FASB EMERGING ISSUES TASK FORCE

Location: FASB Offices
401 Merritt 7
Norwalk, Connecticut

Thursday, January 17, 2013
Starting Time: 8:30 a.m.
Concluding Time: 5:25 p.m.

Task Force Members Present:
Susan M. Cosper (Chairman)
John M. Althoff
Mark M. Bielstein
James G. Campbell
Terri Z. Campbell
Jackson Day
L. Charles Evans
Stuart H. Harden
Carl Kampel
Mark LaMonte
Lawrence J. Salva
Matthew L. Schroeder
Ashwinpaul C. (Tony) Sondhi
Robert Uhl
Lawrence E. Weinstock

Task Force Members Absent:
Paul A. Beswick (SEC Observer)
Richard C. Paul (FinREC Observer)

* For certain issues only.

Others at Meeting Table:
Leslie F. Seidman, FASB Board Member
Daryl E. Buck, FASB Board Member
Russell G. Golden, FASB Board Member
Thomas J. Linsmeier, FASB Board Member
R. Harold Schroeder, FASB Board Member
Marc A. Siegel, FASB Board Member
Larry W. Smith, FASB Board Member
Shelly Luisi, SEC Senior Associate Chief Accountant
Rahul Gupta, FASB Practice Fellow
* Lauren K. Alexander, FASB Associate Practice Fellow
* Elizabeth Gagnon, FASB Project Manager
* Gautam Goswami, FASB Practice Fellow
* Heather L. Harris, FASB Industry Fellow
* Christopher G. Irwin, FASB Practice Fellow
* Steven M. Kane, FASB Practice Fellow
* Melissa A. Maroney, FASB Project Manager
* Lauren Mottley, FASB Associate Practice Fellow
* Daghan Or, FASB Practice Fellow
* Kevin M. Stoklosa, FASB Assistant Director
* Cullen D. Walsh, FASB Practice Fellow

* For certain issues only.

ADMINISTRATIVE MATTERS

- An FASB staff member announced that the FASB chairman made the following EITF agenda decisions regarding issues discussed at the November 27, 2012 EITF Agenda Committee meeting:

    - Issues added to the EITF agenda:
        - EITF Issue No. 13-A, "Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes"
        - EITF Issue No. 13-B, "Accounting for Investments in Tax Credits"
        - EITF Issue No. 13-C, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward or Tax Credit Carryforward Exists"
    - Issues not added to the EITF agenda:
        - Accounting for Income Taxes in Interim Periods

- An FASB staff member announced that any consensuses-for-exposure reached at this meeting and any consensuses-for-exposure reached at prior meetings that are affirmed as consensuses at this meeting will be considered by the Board for ratification and exposure for public comment at the January 30, 2013 Board meeting.

- An FASB staff member announced that the next regularly scheduled EITF meeting is Thursday, March 14, 2013. The EITF Agenda Committee meeting scheduled for January 24, 2013, has been canceled. The next meeting of the EITF Agenda Committee will be scheduled in conjunction with either the May 16, 2013 extra EITF meeting (if utilized) or the June 11, 2013 EITF meeting.

- The EITF chairman announced that Mr. Lawrence E. Weinstock, Mana Products, Inc., would be stepping down as a member of the EITF and thanked him for his service. Mr. Weinstock has been appointed to the FAF Private Company Council.

- An FASB staff member announced that the September 2013 EITF meeting will now be held on Friday, September 13, 2013. The meeting was earlier scheduled to be held on Thursday, September 12, 2013.

DISCUSSION OF AGENDA TECHNICAL ISSUES

Issue No. 11-A

Title: Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity

Dates Discussed: November 3, 2011; March 15, 2012; June 21, 2012; September 11, 2012; January 17, 2013

Introduction

1. A parent entity (parent) may enter into a transaction to sell or transfer those subsidiaries or groups of assets that reside within a foreign entity to an independent third party while retaining its ownership of the foreign entity. Alternatively, the subsidiary or group of assets may be sold directly by the foreign entity. Although a group of assets may represent only a portion of the foreign entity's total net assets, in some cases a group of assets meets the definition of a business as defined in Topic 805, Business Combinations. These transactions may or may not result in the proceeds being distributed from the foreign entity to the parent.

2. Topic 830, Foreign Currency Matters, provides for the cumulative translation adjustment (CTA) to be released into net income upon the sale or upon complete or substantially complete liquidation of an investment in a foreign entity. Subtopic 810-10, Consolidation—Overall, provides for derecognition of the carrying amount of a former subsidiary's net assets when the parent ceases to have a controlling financial interest in that subsidiary. Though not included in the Codification, paragraph B53 of FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, indicates that when the parent no longer controls the subsidiary's assets and liabilities, the parent derecognizes the assets, liabilities, and equity components related to that subsidiary. Some have interpreted "equity components" to include an allocated portion of the CTA related to the foreign entity in which the subsidiary resides. Subsequent to the issuance of Statement 160, the FASB issued Accounting Standards Update No. 2010-02, *Consolidation (Topic 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary—a Scope Clarification*, which amended the scope of Subtopic 810-10 to apply to subsidiaries and groups of assets that are nonprofit activities or businesses, other than those that are sales of in substance real estate or conveyances of oil and gas mineral rights. While the amendments in Update 2010-02 expanded the scope of Subtopic 810-10, the Board did not specifically address amendments to Topic 830, such as an amendment to the guidance in Section 830-30-40 related to the accounting for the CTA when those subsidiaries or a groups of assets that are a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity are sold or transferred.

3. As a result of the lack of clarity that exists in U.S. GAAP about whether a parent should apply the guidance in Section 830-30-40 or Section 810-10-40 for the release of the CTA upon the occurrence of a transaction within the scope of paragraph 810-10-40-3A, there is diversity in practice when an entity disposes of those subsidiaries or groups of assets that are a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas

mineral rights) within a foreign entity. Specifically, some entities apply the guidance in Subtopic 810-10 and recognize a portion of the CTA associated with the disposed subsidiary or group of assets in net income, while other entities apply the guidance in paragraph 830-30-40-1 and only recognize the CTA in net income if the sale or transfer of the subsidiary or group of assets constitutes a complete or substantially complete liquidation of its investment in a foreign entity.

Issue

4. This Issue seeks to resolve the diversity in practice with respect to whether the derecognition guidance in Section 810-10-40 or the derecognition guidance in paragraph 830-30-40-1 should be applied when determining when to recognize the CTA in net income upon the sale or transfer of a subsidiary or group of assets (within the scope of paragraph 810-10-40-3A) *within* a foreign entity. At the June 12, 2012 EITF meeting, the Task Force decided that this Issue should also address whether sales or transfers of *investments in* a foreign entity should result in the release of the CTA into net income of the parent, which includes consideration of business combinations achieved in stages (also referred to as step acquisitions) involving an original equity method investment that is a foreign entity.

Scope

5. This Issue applies to all entities that cease to have a controlling financial interest in a subsidiary or a group of assets *within* a foreign entity when (a) the subsidiary or the group of assets is within the scope of paragraph 810-10-40-3A, (b) the functional currency of the foreign entity is not the parent's reporting currency, and (c) there is a CTA balance associated with the foreign entity. In addition, this Issue applies to entities that sell or transfer an *investment in* a foreign entity, which includes step acquisitions involving an original equity method investment that is a foreign entity.

Prior EITF Discussion

6. At the November 3, 2011 EITF meeting, the Task Force discussed two views for resolving the divergence in U.S. GAAP for releasing the CTA upon the sale or transfer of those groups of assets that are a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. One view is to apply the derecognition guidance in Section 810-10-40, while the other view is to apply the derecognition guidance in paragraph 830-30-40-1.

7. The Task Force also discussed whether a distribution to the parent must occur to permit the release of the CTA into net income. Some Task Force members agreed with the requirement for a distribution to the parent to occur in concept; however, the Task Force decided against requiring such a distribution for the following reasons:

a. It would be a different model than what may be applied to sales or transfers of subsidiaries for entities that interpret "equity components" in paragraph B53 of Statement 160 to include the related portion of the CTA (as described above in paragraph 2).
b. A parent has ultimate control with respect to whether any distributions are made, the amounts of those distributions, and the use of those distributions (for example, the

parent may recycle distributions back into the distributing subsidiary, thus bringing into question the rationale and original intent behind such distributions).

c. Questions might be raised about differences in timing of distributions and amounts required to support the release of the CTA.

8. The Task Force reached a consensus-for-exposure to apply the derecognition guidance in Section 810-10-40. That is, a parent should release the related portion of the CTA upon the sale or transfer of a controlling financial interest in a group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. In support of its conclusion, the Task Force indicated that this view is consistent with the direction of the amendments in Update 2010-02, which align the accounting for the loss of a controlling financial interest in a subsidiary with the accounting for the sale or transfer of a group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights).

9. The Task Force discussed a second issue related to whether it should provide guidance on the measurement of the CTA allocation. The Task Force generally agreed with the FASB staff's recommendation that the amount of the CTA that entities should release into net income should be determined in a systematic and rational manner that reflects an asset group's relative portion of the total CTA associated with the foreign entity (for example, a pro rata portion of the cumulative translation gain or loss attributable to the nonprofit activity or business based on the relative proportion of the net assets of the foreign entity at the date of disposition or the cumulative translation gain or loss attributable to specific assets and liabilities of the nonprofit activity or business).

10. The Task Force also reached a consensus-for-exposure to clarify the guidance for releasing the CTA into net income upon the loss of a controlling financial interest in a subsidiary (thereby the substance of currently non-codified paragraph B53 of Statement 160 would be added to the Codification). Additionally, the current reference to Subtopic 810-10 included in Subtopic 830-30 would be amended to cite the applicable paragraphs within Subtopic 810-10 (as opposed to the entire Subtopic).

11. At its November 30, 2011 meeting, the Board ratified the consensus-for-exposure reached by the Task Force for this Issue and approved the issuance of a proposed Update for a 60-day public comment period. The proposed Update was posted to the FASB website on December 8, 2011, with a comment period that ended on February 6, 2012.

12. At the March 15, 2012 EITF meeting, the Task Force was asked to consider the feedback received from the comment letters on the proposed Update. Nine comment letters and some informal comments were received on the proposed Update.

13. The Task Force discussed the feedback received on the proposed Update about applying the derecognition guidance in Section 810-10-40 for releasing the CTA. The FASB staff noted that three of the nine comment letter respondents disagreed with applying the derecognition guidance for releasing the CTA. The three comment letter respondents who disagreed highlighted the operational complexity of changing the guidance to require more frequent release of the CTA

and cited the general belief that the CTA is a foreign entity concept, and does not reside in and is not allocable to a subsidiary or group of assets within a foreign entity. Some Task Force members noted that there does not appear to be a significant number of preparers with strong views about this Issue. Consistent with the comment letter feedback, however, Task Force members observed that there are some who favor a Topic 810 approach to resolving the diversity in practice while some favor a Topic 830 approach.

14. The Task Force discussed the interaction between the proposed guidance for releasing the CTA with existing hedge accounting guidance. The FASB staff noted that the intention of the proposed Update was not to change the existing hedge accounting guidance to permit (or prescribe) either a specific identification or a pro-rata approach for determining the amount of accumulated gain or loss on a net investment hedge to release into net income. Some Task Force members expressed concern with that approach and suggested that the FASB staff perform additional analysis to consider whether the method for measuring the amount of accumulated gain or loss on a net investment hedge to be released into net income should be, in fact, the same as the method that an entity uses under this Issue to measure the amount of CTA to be released into net income.

15. Task Force members also raised a concern regarding the scope of this Issue and whether it should be expanded to apply to sales of in substance real estate. The FASB staff noted that the current scope of the Issue is consistent with the scope of Subtopic 810-10 (that is, the current scope excludes in substance real estate). In Update 2010-02, the Board concluded that sales of in substance real estate should not be within the scope of the derecognition guidance but instead should follow existing guidance for sales of real estate. While acknowledging the derecognition differences for businesses within the scope of Subtopic 810-10 and in substance real estate, certain Task Force members indicated that they prefer that the measurement guidance upon derecognition to be the same (that is, include the related portion of the CTA).

16. While noting the validity of the aforementioned questions and concerns regarding the operational complexity of applying the amendments in the proposed Update, a Task Force member suggested that those questions only arise if a Topic 810 approach to releasing the CTA is required. As a result, the Task Force member suggested that following a Topic 830 approach may be easier. Other members noted, however, that if some entities are, in fact, releasing the CTA for the sale of a subsidiary within a foreign entity under Topic 810, practice already has addressed the questions and concerns regarding operational complexity. Some Task Force members noted that they believe that it is important to arrive at a consistent approach for (a) subsidiaries (that is, businesses in legal entity form) and (b) groups of assets that constitute a business or nonprofit activity. Those members noted, however, that either a Topic 810 or a Topic 830 approach could be scoped to apply to both of those subsidiaries and groups of assets that constitute a business or a nonprofit activity.

17. In light of the aforementioned concerns, the Task Force requested that the FASB staff perform additional analysis prior to the Task Force affirming its consensus-for-exposure as a consensus. Specifically, the FASB staff was requested to perform user and preparer outreach to better understand their views on this Issue, including operational complexities. Further, the

FASB staff was asked to evaluate certain questions that may arise if the CTA is to be released more frequently. Those questions include the following:

a. Whether the approach to resolve the diversity in practice (which could be either a Topic 810 or a Topic 830 approach) should apply to both (1) subsidiaries already within the scope of Subtopic 810-10 and (2) groups of assets that constitute a business
b. If applying a Topic 810 approach, whether the method for measuring the amount of accumulated gain or loss on a net investment hedge to be released into net income should be the same as the method that an entity uses under this Issue to measure an asset group's relative portion of the CTA associated with the foreign entity
c. If applying a Topic 810 approach, whether (1) sales of in substance real estate and/or (2) conveyances of oil and gas mineral rights should follow the same approach for releasing the CTA as subsidiaries and groups of assets that constitute a business
d. How the release of CTA interacts with existing guidance that discusses the inclusion of the CTA in the carrying amount of an investment being evaluated for impairment (paragraphs 830-30-45-13 through 45-15).

18. At the June 21, 2012 EITF meeting, the Task Force discussed the additional outreach and analysis performed by the FASB staff on the consensus-for-exposure, including a tenth comment letter received on the proposed Update. The FASB staff recommended an amended measurement principle that the amount of the related CTA to release into net income shall be determined in a systematic and rational manner that reflects the subsidiary's (or group of assets') relative portion of the CTA associated with the foreign entity. Some Task Force members expressed concern that constituents would interpret that amended measurement principle to require a specific identification approach, which would be an operationally challenging expectation to set. Those Task Force members also expressed concern that since the CTA is recognized at a broader unit of account (foreign entity), releasing it at a more specific unit of account (subsidiary or a group of assets that is a nonprofit activity or a business *within* the foreign entity) may be operationally difficult. Further, those Task Force members noted that the FASB staff's outreach indicated that many users do not feel strongly about when the CTA is released and that it does not factor into users' trend analysis. Accordingly, in light of those factors and concerns regarding operational complexity, the Task Force reached a tentative conclusion (thereby reversing the Task Force's consensus-for-exposure reached at the November 3, 2011 EITF meeting) that an entity should not release an allocated portion of the CTA related to a foreign entity when the entity loses a controlling financial interest in a group of assets that is a nonprofit activity or a business *within* the foreign entity unless that loss represents a complete or substantially complete liquidation of a foreign entity.

19. Since the FASB staff's additional outreach identified that diversity in practice exists concerning the release of the CTA upon the loss of a controlling financial interest in a subsidiary *within* a foreign entity, the Task Force also discussed whether it is appropriate for an entity to release an allocated portion of the CTA related to the foreign entity in those instances. The Task Force preferred that the same approach be applied to both subsidiaries and groups of assets that are a nonprofit activity or a business *within* a foreign entity, and reached a tentative conclusion that an entity should not release an allocated portion of the CTA related to a foreign entity when the entity loses a controlling financial interest in a subsidiary within the foreign entity unless that

loss represents a complete or substantially complete liquidation of the foreign entity. In summary, the Task Force tentatively concluded that the CTA related to a foreign entity should not be allocated to subsidiaries or groups of assets *within* the foreign entity upon their disposal, unless such disposal results in a complete or substantially complete liquidation of the entity's investment in the foreign entity in accordance with Topic 830.

20. The Task Force then discussed the accounting for transactions at the foreign entity level (as opposed to transactions involving subsidiaries or groups of assets *within* a foreign entity). Specifically, the Task Force discussed when to release the CTA for a business combination achieved in stages (commonly referred to as a step acquisition). Two views were expressed with respect to the treatment of the CTA in that situation. Some noted that the general principle in Topic 830 is for the CTA to be released when the foreign currency exposure is reduced and, as a result, preferred that the CTA not be released in that circumstance because the exposure has been increased. Others noted that the investment in the foreign entity (as a unit of account) is being derecognized and, as a result, preferred that the CTA be released. Under that view, two events are recognized; the original equity method investment is sold and, simultaneously, a controlling financial interest is obtained. In light of the new tentative conclusion to not allocate the CTA to units of account below the foreign entity level (that is, subsidiaries or groups of assets), the Task Force reached a tentative conclusion that if a parent holds an equity method investment that meets the definition of a foreign entity and the parent obtains a controlling financial interest in that foreign entity, the CTA related to that foreign entity should not be released.

21. The Task Force then discussed whether to release the CTA when a parent loses a controlling financial interest in a foreign entity. Some Task Force members initially indicated that the CTA should only be released if the loss of a controlling financial interest represents a sale or complete or substantially complete liquidation of the investment in a foreign entity under Topic 830. The FASB staff noted that such a conclusion may be inconsistent with the current guidance in paragraph 830-30-40-2 (formerly FASB Interpretation No. 37, *Accounting for Translation Adjustments upon Sale of Part of an Investment in a Foreign Entity*), which indicates that:

> If a reporting entity sells part of its equity method investment in a foreign entity, a pro rata portion of the accumulated translation adjustment component of equity attributable to that equity method investment shall be recognized in measuring the gain or loss on the sale. For guidance if an entity sells part of its ownership interest in a consolidated foreign entity, see Subtopic 810-10.

22. In light of the Task Force's tentative conclusion to reverse its previous consensus-for-exposure, both the FASB staff and Task Force acknowledged that the circumstances discussed above were not contemplated or analyzed in preparation for the meeting. As a result, the Task Force requested that the FASB staff perform additional analysis related to implications of the tentative conclusion prior to the Task Force reaching a consensus or changing its consensus-for exposure on this Issue. The FASB staff agreed to explore the following issues, based on the tentative conclusion that an entity should not release an allocated portion of the CTA related to a foreign entity when the entity loses a controlling financial interest in either (a) a subsidiary *within* the foreign entity or (b) a group of assets *within* the foreign entity (within the scope of

paragraph 810-10-40-3A) unless that loss represents a complete or substantially complete liquidation of an investment in a foreign entity:

a. Whether an entity should release the CTA when a parent loses a controlling financial interest in a foreign entity and the remaining interest is (1) an equity method investment, (2) a cost method investment, or (3) an equity security classified as an "available for sale" investment
b. Whether an entity should release a portion of the CTA when a parent sells part of its equity method investment in a foreign entity; that is, revisit the guidance in paragraph 830-30-40-2 (formerly, Interpretation 37)
c. Whether an entity should release the CTA upon performing a step acquisition. This issue also is one on which the Task Force made a tentative conclusion at its June 21, 2012 meeting.

23. At the September 11, 2012 EITF meeting, the Task Force discussed the additional outreach and analysis performed by the FASB staff related to sales and transfers involving an investment in a foreign entity. The Task Force reached a consensus-for-exposure that the reference to sale of an investment in a foreign entity in paragraph 830-30-40-1 should be clarified to include the loss of a controlling financial interest in a foreign entity (irrespective of any retained investment), which would include both sales and non-sale deconsolidation events referenced in paragraph 810-10-55-4A.[1] The Task Force also reached a consensus-for-exposure that the sale or partial sale of an equity method investment in a foreign entity should not be removed as a CTA release event. One Task Force member noted that the Task Force's consensus-for-exposure corresponds with that member's belief that CTA is tied to an entity's net investment in a foreign entity. Therefore, when a net investment in a foreign entity is deconsolidated or derecognized, it should include the related CTA. Accordingly, upon deconsolidation or derecognition of a foreign entity (that is, upon loss of a controlling financial interest), when full (100 percent) gain or loss is recognized under Section 810-10-40, the entire amount of the CTA related to the foreign entity should also be recycled into net income. Similarly for sales of part of an equity method investment in a foreign entity, when partial gain or loss is recognized on the net investment, there should be a partial release of the CTA into net income. Other Task Force members agreed with that assessment.

24. The Task Force also discussed the release of the CTA upon step acquisitions involving an investment in a foreign entity and reached a consensus-for-exposure that the CTA should be

[1] According to paragraph 810-10-55-4A,

> All of the following are circumstances that result in deconsolidation of a subsidiary under paragraph 810-10-40-4:
> 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 a government, court, administrator, or regulator.

released in such transactions. The Task Force believes that this would be consistent with the Board's intent in FASB Statement No. 141 (revised 2007), Business Combinations, for requiring the remeasurement of the original equity interest[2] in a step acquisition. Several Task Force members expressed disagreement with Statement 141R and its requirement to remeasure the original equity interest. Those members believe that releasing the CTA in a step acquisition does not truly reflect the economic effect of a step acquisition transaction and that the CTA should only be released when an entity loses exposure to a net investment in a foreign entity. Those Task Force members do not believe that the CTA should be released into net income because purchase events do not result in derecognition or deconsolidation events for the investment in a foreign entity. Further, one Task Force member highlighted that an entity increases its exposure to a foreign entity in a step acquisition and, if the CTA is to be released, it calls into question where the CTA resides (that is, at the investment level or at a higher level). However, despite disagreeing with the remeasurement requirements of existing standards, those Task Force members acknowledged that releasing the CTA in a step acquisition is consistent with existing accounting. Some Task Force members mentioned that releasing the CTA in a step acquisition is also consistent with the view that the CTA is tied to an investment in a foreign entity and recognizing a new basis in that investment. Those Task Force members stated that if a gain or loss is recognized in the income statement based upon the triggering event of a change in control (as directed by Statement 141R), then the CTA should be released into net income. The Task Force reached a consensus-for-exposure that the CTA should be released into net income upon a step acquisition. That decision reverses the Task Force's previous tentative conclusion reached at the June 21, 2012 EITF meeting.

25. At its September 27, 2012 meeting, the Board ratified the revised consensus-for exposure reached by the Task Force for this Issue and approved the issuance of a revised proposed Update for a 60-day public comment period. The revised proposed Update was posted to the FASB website on October 11, 2012, with a comment period that ended on December 10, 2012.

Current EITF Discussion

26. At the January 17, 2013 EITF meeting, the Task Force considered the feedback received from the nine comment letters on the revised proposed Update. Given the mixed feedback received on the revised consensus-for-exposure, the Task Force's discussion focused on the conceptual merits of releasing CTA into net income based on the "substantial liquidation" concept in Subtopic 830-30 and on the loss of control concept in Subtopic 810-10, and whether there should be a difference depending on where an investment is held (that is, within a foreign entity or at the foreign entity level).

27. The Task Force also discussed a proposal put forth by a respondent to permit a one-time policy election to apply either a Subtopic 830-30 approach or a Subtopic 810-10 approach to releasing CTA into net income. Some Task Force members noted that the benefit of a policy

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[2] According to the Basis for Conclusions in Statement 141R, paragraphs B384 and B389, remeasurement of the original equity interest in a step acquisition effectively reflects two events, the disposition of an investment asset in an entity and the acquisition of a controlling financial interest in all of the underlying assets and liabilities of that entity (acquiree), including the right to direct how the acquiree and its management use those assets in their operations.

election is its acknowledgment that (a) a single approach to the release of CTA would not provide for comparability of sales or transfers because disposal events by nature are not comparable, and (b) users generally do not have a preference for the approach taken to release CTA into net income. Another Task Force member mentioned that comparability of disposal events is not of interest to users; instead, users are generally interested in having information available to arrive at a recurring cash gain or loss number. Other Task Force members noted that FASB Statement No. 52, *Foreign Currency Translation* (codified in Topic 830), does not include and did not intend a policy election to be made for the release of CTA into net income. A Board member and several Task Force members acknowledged that a decision to require a policy election could be operationally challenging because of the difficulty in specifying what the election alternatives would be.

28. The Task Force noted that a key difficulty in resolving this Issue is the disparate principles in the foreign currency guidance and the consolidations guidance. The former is a realization of a net investment model, while the latter is a control (gaining or losing) model.

29. The Task Force noted that Topic 830 requires CTA be released into net income only upon events that generally cause a related gain or loss on the net investment to be recognized in net income. These events were identified as either (a) a sale or (b) the complete or substantially complete liquidation of an investment in a foreign entity. The Task Force further indicated that CTA release guidance in Topic 830 is focused on events occurring *to* the investment in a foreign entity because in Statement 52 the Board decided that the CTA relates to the *parent's investment in* a foreign entity as opposed to relating to specific assets *within* a foreign entity. Further, the Task Force indicated that the Board in Statement 52 also decided that CTA does not belong in operating earnings until the sale or liquidation of the foreign entity because until then its effect is uncertain and remote. In Interpretation 37, the Board clarified that the reference to "sale" as a CTA release event in Statement 52 includes a parent's partial, as well as complete, disposal of its ownership interest in a foreign entity.

30. Some Task Force members noted that if this Issue were to require translation gains or losses to be released only upon a complete or substantially complete liquidation of an investment in the foreign entity, CTA would then only be released when a sale or transfer event essentially becomes the equivalent of a foreign currency *transaction* (that is, when the parent entity holds little to no retained investment in the foreign entity). Supporters of a substantial liquidation threshold for this Issue generally believe that this treatment best aligns with how Subtopic 830-30 differentiates between translation gains or losses and transaction gains or losses. Subtopic 830-30 requires translation gains or losses to be reported outside net income in other comprehensive income as a cumulative translation adjustment but requires transaction gains or losses to be reported in net income because they are considered real economic gains and losses. Some Task Force members indicated that a substantial liquidation model to release the CTA would return the guidance to what it was prior to Interpretation 37's amendments. This, they note, could be beneficial because Interpretation 37's amendments to release a portion of CTA upon the sale of only *part* of an ownership interest in a foreign entity appear inconsistent with the realization of a net investment model of Statement 52.

31. Other Task Force members, however, said that limiting CTA release events to complete or substantially complete liquidation events, that is, disallowing sales as a CTA release event, is a broader issue that would be more appropriately addressed by the Board. They noted that the possible removal of the Interpretation 37 guidance from Subtopic 830-30 is beyond the narrow scope of this Issue. Also, some Task Force members believe that Interpretation 37's amendments *are* consistent with the principle in Statement 52 to partially release CTA when a gain or loss on the net investment in a foreign entity is recognized in net income.

32. The Task Force noted that in the amendments to Topic 810 that resulted from Statement 160, the Board changed the events that cause a related gain or loss on a net investment to be recognized in net income by requiring recognition of a gain or loss in net income of any retained noncontrolling interest upon the loss of control over a subsidiary. Previously, a gain or loss upon losing a controlling financial interest in a subsidiary was only recognized on the interest sold. At the Task Force meeting, a Board member stated that Statement 160's derecognition guidance was only intended to contemplate the removal of the components within other comprehensive income relating to non-controlling interests (held by unrelated parties) in the event of a loss of control, and that the Board did not explicitly or implicitly contemplate CTA. Accordingly, that Board member did not believe that the guidance was intended to govern the release of CTA relating to the parent's controlling financial interest (or to any retained noncontrolling interest)—that is, all CTA release guidance is contained in Statement 52.

33. A Task Force member expressed concern about the proposed treatment of CTA upon a step acquisition. That member did not believe that CTA should be released into net income when an entity continues to have exposure to the foreign currency. That member contended that in a step acquisition, there has been no reduction in an entity's investment risk and that exposure to the foreign currency has actually increased. Other Task Force members pointed to Subtopic 805-10's recognition guidance on step acquisitions. Under that guidance, the original equity method investment is remeasured to fair value with any resulting gain or loss recognized in net income. Unless the related CTA is correspondingly released, the measurement of the newly recorded consolidated investment would not reflect fair value, which is another requirement of Subtopic 805-10. Those Task Force members also believe that the original equity method investment could be viewed as being, effectively, substantially liquidated. However, they acknowledge that step acquisitions illustrate the conflict between the control model in Subtopics 805-10 and 810-10 and the realization of a net investment model in Subtopic 830-30.

34. A few Task Force members suggested that the definition of a foreign entity be re-examined for clarification because that was a recurring request raised in the feedback received on both exposure drafts, as well as where CTA resides. However, they acknowledged that these subjects are beyond the scope of this Issue.

35. Following extensive discussion, the Task Force decided to affirm as a consensus the consensus-for-exposure in the revised proposed Update. The Task Force concluded that the amendments reach a compromise between the disparate principles in the two standards by (a) retaining Subtopic 830-30's CTA release events and (b) accommodating Subtopic 810-10's loss of control concept by further clarifying that reference to "sale" as a CTA release event includes the loss of a controlling financial interest in a foreign entity.

Recurring Disclosures

36. At the November 3, 2011 EITF meeting, the Task Force decided that no additional disclosure requirements should be proposed in this Issue. The Task Force observed that Subtopics 830-30 and 810-10 have existing disclosure requirements that should be applied, if applicable. There was no further discussion on recurring disclosures by the Task Force at the March 15, 2012, and June 21, 2012 EITF meetings. Given the Task Force's change in its consensus-for-exposure for events *within* a foreign entity and the broadened scope of the Issue, the Task Force discussed recurring disclosures at the September 11, 2012 EITF meeting. The Task Force affirmed as a consensus its original consensus-for-exposure that this Issue does not require any additional recurring disclosures. However, one Task Force member disagreed because of what that Task Force member viewed as an inconsistency. Specifically, while there is currently diversity in practice in terms of when CTA is released, the guidance in the consensus-for exposure would state that existing disclosures presumably have been adequate.

37. At the January 17, 2013 EITF meeting, the Task Force affirmed as a consensus its revised consensus-for-exposure that no additional recurring disclosures should be required by this Issue.

Transition Method

38. The Task Force reached a consensus-for-exposure at the November 3, 2011 EITF meeting that this Issue should be applied prospectively for derecognition events occurring after the effective date. Prior periods would not be adjusted. Early adoption would be permitted.

39. At the September 11, 2012 EITF meeting, the Task Force discussed two alternatives for a transition method that would apply to the consensus-for-exposure for both events within a foreign entity as well as for events related to an investment in a foreign entity—prospective or retrospective application. One Task Force member suggested a third alternative, which was to apply the consensus-for-exposure prospectively to all events except past events related to a sale or transfer of an investment in a foreign entity in which a cost method investment was retained and for which the CTA had not been released into net income because the event had not resulted in the complete or substantially complete liquidation of the foreign entity. For those past events only, retrospective application would apply. The Task Force discussed the tradeoff between this alternative and transition simplicity resulting from an entirely prospective approach. The Task Force re-affirmed its original consensus-for-exposure that this Issue should be applied entirely prospectively from the beginning of the fiscal year of adoption with early adoption permitted. If early adoption is elected, an entity would be required to apply the guidance from the beginning of an entity's fiscal year of adoption to account for the release of the CTA in the same manner for all disposition and deconsolidation events within that fiscal year. This would provide consistency for users of the financial statements.

40. At the January 17, 2013 EITF meeting, the Task Force affirmed as a consensus its consensus-for-exposure that the amendments resulting from this Issue should be applied prospectively. The Task Force also affirmed as a consensus its consensus-for-exposure that early adoption of the amendments resulting from this Issue should be permitted.

Transition Disclosures

41. At the January 17, 2013 EITF meeting, the Task Force affirmed as a consensus its consensus-for-exposure that entities should apply the transition disclosure requirements in paragraphs 250-10-50-1 through 50-3 for an accounting change resulting from this Issue. No additional transition disclosures would be required.

Effective Date

42. At the January 17, 2013 EITF meeting, the Task Force affirmed as a consensus its consensus-for-exposure that the proposed amendments should be effective for public entities for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013, and for nonpublic entities for the first annual period beginning after December 15, 2014, and interim and annual periods thereafter.

Board Ratification

43. At its January 31, 2013 meeting, the Board ratified the consensus reached by the Task Force on this Issue.

Status

44. No further EITF discussion is planned.

Issue No. 12-B

Title: Not-for-Profit Entities: Services Received from Personnel of an Affiliate for Which the Affiliate Does Not Seek Compensation

Dates Discussed: March 15, 2012; June 21, 2012; January 17, 2013

Introduction

1. Not-for-profit entities (NFPs) within an affiliate group often operate under arrangements that provide for the engagement of personnel and their deployment for common purposes and projects among the affiliate entities. An entity within an affiliate group may engage personnel who provide services to affiliate not-for-profit entities. Although the compensation and benefits of these personnel are paid for by the contributing entity, it does not seek compensation from the recipient not-for-profit affiliate entity for those personnel costs.

2. Paragraph 958-605-25-17 of Topic 958, Not-for-Profit Entities, provides guidance for the recognition of *contributed* services from affiliates as follows:

> Contributed services (and the related assets and expenses) shall be recognized if employees of separately governed *affiliated* entities regularly perform services (in other than an advisory capacity) for and under the direction of the donee *and the recognition criteria for contributed services are met*. [Emphasis added.]

3. Paragraph 958-605-25-16 provides that *contributions of services* shall be recognized if they meet any of the following criteria:

> a. They create or enhance nonfinancial assets.
> b. They require specialized skills, are provided by individuals possessing the skills, and would typically need to be purchased if not provided by donation. Services requiring specialized skills are provided by accountants, architects, carpenters, doctors, electricians, lawyers, nurses, plumbers, teachers, and other professionals and craftsmen.
>
> Contributed services and promises to give services that do not meet these criteria shall not be recognized.

4. Paragraph 958-605-30-2 provides that *contributions* received shall be measured at their fair value. Pursuant to the basis for conclusions of FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made*, the recognition of *contributed services* (paragraph 958-605-25-16) was limited to services requiring specialized skills or creation or enhancement of nonfinancial assets mainly because of the difficulty involved in placing a monetary value on donated services and the absence of control over those performing the services.

5. Contributions are defined in the Codification as an "unconditional transfer of cash or other assets to an entity or a settlement or cancellation of its liabilities in a voluntary nonreciprocal

transfer by another entity acting other than as an owner." Questions have arisen about whether a recipient NFP should consider services received from personnel of an affiliate as a contribution and apply the above recognition and measurement guidance. Some believe that the measure of control inherent in an affiliate relationship and information available to the affiliate about the actual cost of the services provided distinguish such transactions from voluntary services contributed by external donors to justify different recognition and measurement criteria. Practice is diverse. Some not-for-profit entities recognize only those services received from personnel of an affiliate that meet the criteria in Subtopic 958-605. However, some other not-for-profit entities recognize all services received from personnel of an affiliate, regardless of whether the criteria for contributed services in Subtopic 958-605 are met. Furthermore, some not-for-profit entities measure services received from personnel of an affiliate at the amount of cost recognized by the affiliate for the personnel providing those services without considering the fair value, if different than cost, of those services.

Issue

6. This Issue seeks to resolve the diversity in practice about whether recipient NFPs should apply the contributed services guidance in paragraph 958-605-25-17 for recognizing and measuring services received from personnel of an affiliate.

Scope

7. This Issue would apply to the financial statements of NFPs that receive services from personnel of an affiliate for which the affiliate does not seek compensation.

Prior EITF Discussion

8. At the March 15, 2012 EITF meeting, the Task Force discussed this Issue but did not reach a consensus-for-exposure. The Task Force discussed the following three views that were included in the Issue Summary:

View A: Do not apply the contributed services guidance. Recognize all personnel services that are regularly performed for the recipient NFP at actual cost.

View B: Do not apply the contributed services guidance. Recognize all personnel services that are regularly performed for the recipient NFP. Measure those personnel services that meet the recognition criteria in paragraph 958-605-25-16 at fair value, otherwise measure at actual cost.

View C: Amend paragraph 958-605-25-17 to remove the reference to "performed under the direction of the recipient." Recognize only personnel services that meet the amended recognition criteria in paragraph 958-605-25-17 at fair value.

9. A majority of the Task Force members supported the position in View A that a recipient NFP should recognize at actual cost all services that are regularly performed by personnel of an affiliate, as defined in the Master Glossary. Two Task Force members preferred View C and expressed concern that applying the guidance in View A would result in inconsistent recognition and measurement criteria for personnel services received from an affiliate compared with those provided by unaffiliated donors. Some Task Force members observed that application of the term "regularly performed" may require judgment.

10. Some Task Force members expressed concern about limiting the scope of this Issue to affiliates, as defined in the Master Glossary, and questioned whether to include other entities, such as affiliated entities, financially interrelated entities, or all related parties.

11. Task Force members also expressed concern about how the presentation of services received from personnel of an affiliate as revenues would affect NFPs that have a concept of equity transfers, such as health care entities. An equity transfer is nonreciprocal and embodies no expectation of repayment, nor does the transferor receive anything of immediate economic value. Equity transfers can occur only between related NFPs if one controls the other or both are under common control.

12. The Task Force requested that the FASB staff perform additional research and outreach on this Issue, including consideration of the concerns above regarding financial statement presentation and which NFPs should be included in the scope.

13. The Issue was redeliberated at the June 21, 2012 EITF meeting. At that meeting, the Task Force reached a consensus-for-exposure that in their financial statements, recipient NFPs should not apply the contributed services guidance in paragraph 958-605-25-17 for recognizing services received from personnel of an affiliate for which the affiliate does not seek compensation. Instead, in accordance with View A, the recipient NFP should recognize all services received from personnel of an affiliate at the cost incurred by the affiliate. The Task Force noted that although components of cost would depend on the nature and type of services provided by the personnel and could vary from entity to entity, at a minimum all direct personnel costs (for example, compensation and any payroll-related fringe benefits) incurred by the affiliate in providing the services should be recognized by the recipient NFP. The Task Force discussed whether the term "regularly perform" should be retained and used to determine significance when identifying the services received from personnel of an affiliate to be recognized. The Task Force determined that the term should not be retained, noting that, in general, accounting guidance need not be applied to immaterial items.

14. The Task Force clarified that the intent of the guidance in this Issue is to recognize services received from personnel of an affiliate that directly benefit the recipient NFP (that is, are similar to personnel directly engaged by the recipient NFP) but for which the affiliate does not seek compensation for the services provided. For example, that would include recognizing services performed by the personnel of an affiliate for and under the direction of the recipient NFP and shared services.

15. The Task Force determined that the scope of the Issue would be limited to services that are received from personnel of an affiliate. An affiliate is a party that directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with the recipient NFP.

16. The Task Force reached a consensus-for-exposure that an NFP that provides a performance indicator (analogous to income from continuing operations of a for-profit entity) should report the increase in net assets associated with services received from personnel of an affiliate and for which the affiliate does not seek compensation as an equity transfer, regardless of whether those

services are received from personnel of a not-for-profit affiliate entity or a for-profit affiliate entity. For other NFPs that do not present a performance indicator, the Task Force decided not to prescribe presentation guidance for the increase in net assets associated with services received from personnel of an affiliate other than prohibiting reporting as a contra-expense or a contra-asset. For all NFPs, the corresponding decrease in net assets or the creation or enhancement of an asset resulting from the use of services received from personnel of an affiliate should be reported similar to how other such expenses and assets are reported.

17. The Task Force reached a consensus-for-exposure that no additional recurring disclosures should be required by this Issue. According to the definition of related parties in the Master Glossary, affiliates are related parties. Subtopic 850-10, Related Party Disclosures—Overall, provides disclosure requirements for related-party transactions, which the Task Force considered to be sufficient and applicable for the purposes of this Issue.

18. The Task Force also reached a consensus-for-exposure that the amendments resulting from this Issue should be applied prospectively to services received from personnel of an affiliate on or after the date of adoption. An entity would be provided with an option to apply the amendments resulting from this Issue under a modified retrospective approach in which all prior periods presented upon the date of adoption would be adjusted, but no adjustment would be made to the beginning balance of net assets of the earliest period presented. The Task Force decided that early adoption of the amendments resulting from this Issue should be permitted to allow for the elimination of the existing diversity as soon as is practicable. Recipient NFPs should apply the transition disclosure requirements in paragraphs 250-10-50-1 through 50-3 for an accounting change resulting from this Issue. No additional transition disclosures would be required.

19. At its July 11, 2012 meeting, the Board ratified the consensus-for-exposure reached by the Task Force in this Issue and approved the issuance of a proposed Update for a 60-day public comment period. The proposed Update was posted to the FASB website on July 23, 2012, with a comment period that ended on September 20, 2012.

Current EITF Discussion

20. At the January 17, 2013 EITF meeting, the Task Force was asked to consider the feedback from the 13 comment letters on the proposed Update for this Issue.

21. The Task Force members expressed concerns regarding scope, comparability, and cost-benefits of issuing the guidance, including:

a. Whether the scope of the Issue should exclude services received from personnel of a for-profit affiliate or an individual affiliate.
b. Whether the Issue should be limited to services received from personnel of an affiliate that require specialized skills or that create or enhance nonfinancial assets, similar to the criteria in Subtopic 958-605 for recognizing contributions of services from external donors.

c. Whether the compliance costs would justify the benefits derived by users from the information that would be included in an NFP's financial statements after applying the guidance.

22. The Task Force requested that the FASB staff perform additional research and outreach on this Issue with preparers and users of NFP financial statements to consider the concerns expressed above.

Status

23. Further discussion is expected at a future EITF meeting.

Issue No. 12-D

Title: Accounting for Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date

Dates Discussed: March 15, 2012; June 21, 2012; January 17, 2013

Introduction

1. Under joint and several liability, the total amount of an obligation is enforceable against any of the parties to the arrangement. For example, under joint and several liability in a lending arrangement, the lender can demand payment, in accordance with the terms of the arrangement, for the total amount of the obligation from any one of the obligors or any combination of the obligors. The obligors cannot refuse to perform on the basis that other parties also are obligated to perform; however, the paying obligor may be able to pursue the other obligors for repayment, depending on the facts and circumstances.

2. Currently there is diversity in practice in how entities recognize and measure obligations resulting from joint and several liability arrangements. Some entities are recording the entire amount of the obligation and some entities are recording less than the total amount of the obligation, such as an amount allocated or corresponding to proceeds received.

3. Some consider the concept of a liability and the requirements in Subtopic 405-20, Liabilities—Extinguishments of Liabilities, that must be met in order to extinguish a liability. Under those requirements, presenting the full liability on the standalone financial statements of each entity that is jointly and severally liable may be appropriate. Others consider the guidance on contingent liabilities in Subtopic 450-20, Contingencies—Loss Contingencies, and Subtopic 410-30, Asset Retirement and Environmental Obligations—Environmental Obligations, under which an entity may record its estimated portion of the total obligation subject to joint and several liability.

Issue

4. This Issue seeks to resolve diversity in practice about how a reporting entity that is jointly and severally liable should account for an obligation resulting from a joint and several liability arrangement for which the total amount under the arrangement is fixed at the reporting date.

Scope

5. This Issue applies to obligations resulting from joint and several liability arrangements for which the total amount under the arrangement is fixed at the reporting date, except for obligations that otherwise are accounted for under the following Codification Topics:

a. Topic 410, Asset Retirement and Environmental Obligations
b. Topic 450, Contingencies
c. Topic 460, Guarantees
d. Topic 715, Compensation–Retirement Benefits
e. Topic 740, Income Taxes.

Previous EITF Discussion

6. At the March 15, 2012 EITF meeting, the Task Force discussed this Issue but did not reach a consensus-for-exposure. Some Task Force members expressed concerns about the scope of the Issue as described above. A number of Task Force members indicated that the scope should be limited to obligations resulting from joint and several liability arrangements involving either (a) entities under common control and related parties or (b) entities under common control. Other Task Force members indicated that the scope should include all entities as proposed by the FASB staff and this Issue's working group (a working group meeting was held on January 26, 2012). With respect to the type of obligation included in the scope, some Task Force members questioned whether litigation in which a settlement or judicial decision has been reached (that is, all contingencies have been resolved) should be excluded from the scope of the Issue.

7. The Task Force discussed the following three possible alternatives for recognizing obligations within the scope of this Issue:

View A: Each reporting entity that is jointly and severally liable should treat the obligation as a contingent liability and apply the guidance in Subtopic 450-20, recording a liability when it is probable that it will be required to pay an amount and when that amount can be reasonably estimated.

View B: Each reporting entity that is jointly and severally liable should treat the obligation as a guarantee and apply the guidance in Topic 460. Note that guarantees between parents and their subsidiaries or among entities under common control are excluded from the initial recognition and measurement requirements of Topic 460, but they are subject to the subsequent measurement and disclosure requirements.

View C: Each reporting entity that is jointly and severally liable should record the total amount of the obligation in their respective standalone financial statements.

8. Some Task Force members supported View A because they believe that its application is less complex and less costly. Other Task Force members supported View B because they believe that the accounting for an obligation resulting from a joint and several liability arrangement should be similar to the accounting for a guarantee because there are economic similarities between the two. No Task Force member indicated support for View C. Some Task Force members expressed a potential concern about the costs and complexity of measuring the fair value of the stand-ready obligation under View B, particularly for nonpublic entities.

9. For each view, the corresponding entry to the financial statements for any liability recognized would depend on the facts and circumstances (examples may include cash, expense, receivables that are assessed for impairment, equity transactions, and/or another account). One Task Force member suggested that the guidance on the corresponding entry to the financial statements for any obligation resulting from a joint and several liability arrangement recognized under this Issue be addressed as part of, or be considered in addressing, this Issue.

10. The Task Force instructed the FASB staff to perform outreach on both the scope of this Issue, including its applicability to unrelated parties and nonpublic entities, and the recognition and measurement approaches for obligations included in the scope of this Issue.

11. At the June 21, 2012 EITF meeting the FASB staff summarized the results of its outreach with users, preparers, and auditors of financial statements as follows.

a. The users of financial statements did not express any preferences on the scope of this Issue. They stated that comprehensive disclosure of obligations resulting from joint and several liability arrangements is the most important consideration for this Issue because no recognition and measurement approach alone could provide them with adequate information to make an informed decision given the inherent uncertainties associated with accounting for such obligations. A majority of users supported the expected payments approach (View A), since they said that in many cases, the measurement of the obligation under the expected payments approach and guarantee accounting approach (View B) would result in a similar liability amount, and indicated that the additional amount under guarantee accounting (that is, the fair value of the stand-ready obligation) may not provide useful information to them and may be difficult to understand.
b. The preparers did not express any preferences on the scope of this Issue, similar to users. With respect to the recognition and measurement approaches, all of the preparers supported View A, due to concerns about the complexities and costs associated with measuring the fair value of the stand-ready obligation under View B. They stated that the extent to which estimates are required to measure the fair value of the stand-ready obligation resulting from a joint and several liability arrangement may cause comparability issues among entities, and they questioned whether the costs of the approach would outweigh the benefits to financial statement users. Most preparers' experiences with joint and several liability arrangements were limited to entities under common control and therefore they were indifferent to the approaches under Views A and B since the measurement of the obligation would be the same under both of those approaches for entities under common control.
c. The auditors did not have a consistent view on the type of entity that should be included in the scope. Some auditors thought the scope should include all entities with obligations resulting from joint and several liability arrangements because they did not think that there was a conceptual basis for limiting the scope. Other auditors suggested the recognition and measurement approach selected might influence their opinion on the scope. With respect to the recognition and measurement approaches, several auditors thought that View B might be more supportable on a conceptual basis than View A. They observed that a guarantee and joint and several liability are economically similar; therefore, they thought it was preferable for the accounting approaches to be similar. However, they recognized that there might be costs and complexities associated with estimating the stand-ready obligation under View B for joint and several liability arrangements involving related parties. They also were concerned about the offsetting entry under View B, particularly for the obligation to stand ready to perform. Due to the practical concerns of preparers and the views of users on View B, most auditors indicated their support for View A.

12. At the June 21, 2012 EITF meeting, the Task Force reached a consensus-for-exposure as discussed below. The scope of this Issue includes all entities because the Task Force does not

believe that there is a basis on which to exclude unrelated parties and if unrelated parties were excluded, they believe that those entities would apply this guidance by analogy since there would be no specific U.S. GAAP to apply. Task Force members also wanted to ensure that joint and several liability arrangements involving joint venturers, which may be unrelated parties, were included in the scope of this Issue. The Task Force requested that the FASB staff obtain additional information about the nature of joint and several liability arrangements among unrelated parties during the exposure period of the consensus-for-exposure.

13. The Task Force decided that the recognition and measurement approach for obligations resulting from joint and several liability arrangements included in the scope of this Issue should be a modified version of the approach proposed under View A. Under this modification, the guarantee guidance in Topic 460 would apply to joint and several liability arrangements if the entity's role is primarily that of a guarantor. To determine whether the primary role of the reporting entity is that of a guarantor, the entity should evaluate the guidance related to guarantees in Topic 460, including the scope guidance in paragraph 460-10-15-4, and evaluate all facts and circumstances of the arrangement, including whether the reporting entity receives explicit consideration for standing ready. In addition, the Task Force concluded that there is a presumption that the minimum measurement of the liability is the greater of (a) the portion of the amount that the entity agreed to pay among its co-obligors (for example, the amount received in some cases) and (b) the amount that the entity expects to pay (for example, if the entity expects to have to pay additional amounts on behalf of other joint obligors).

14. At its July 11, 2012 meeting, the Board ratified the consensus-for-exposure reached by the Task Force in this Issue and approved the issuance of a proposed Update for a 60-day public comment period. The proposed Update was posted to the FASB website on July 23, 2012, with a comment period that ended on September 20, 2012.

Current EITF Discussion

15. At the January 17, 2013 EITF meeting, the Task Force considered the feedback received from the 11 comment letters on the proposed Update for this Issue.

16. That feedback indicated that a majority of the respondents supported the recognition, measurement, and disclosure requirements in the proposed Update. However, several respondents commented that the guidance in the proposed Update to identify whether or not the primary role of the reporting entity is that of a guarantor was unclear. The proposed Update included one indicator, which was that the reporting entity received explicit consideration for standing ready. The respondents inquired whether there were other circumstances in which the entity should account for the arrangement under Topic 460, and, if so, what those circumstances would be.

17. Based on the feedback from the comment letters, the FASB staff research, and additional outreach, the Task Force concluded that the proposed guidance to identify whether the primary role of the reporting entity is that of a guarantor should not be included in the final Update. Some Task Force members expressed concern that removing the guidance may in certain circumstances cause arrangements that have economic similarities to be accounted for under two different accounting models (that is, as a guarantee or a joint and several liability); however, they

stated that since the FASB staff and the Task Force have not been able to identify indicators that are broadly applicable and accounting for many of those obligations would be similar to the guidance in the proposed Update and Topic 460, because many of those arrangements are among entities under common control, they would be supportive of excluding that guidance in the final Update. Therefore, the Task Force affirmed as a consensus the consensus-for-exposure excluding the requirement to assess whether the primary role of the entity is that of a guarantor.

18. In the proposed Update, the measurement guidance was linked to the guidance for loss contingencies in Subtopic 450-20. The Task Force concluded that the proposed guidance on accounting for obligations with joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date should be included in the Update, rather than linked to another Subtopic, because the Task Force thought it would be easier to apply the guidance in practice. In addition, the Task Force noted that the recognition criteria in Subtopic 450-20 are not relevant for the arrangements within the scope of this Update. The Task Force concluded that the initial and subsequent measurement should be the sum of:

a. The amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors
b. Any additional amount the reporting entity expects to pay on behalf of its co-obligors. If some amount within a range of the additional amount the reporting entity expects to pay is a better estimate than any other amount within the range, that amount should be the additional amount included in the measurement of the obligation. If no amount within the range is a better estimate than any other amount, then the minimum amount in the range should be the additional amount included in the measurement of the obligation.

19. The Task Force discussed whether the amendments in the Update should include specific guidance about the corresponding entry or entries when recognizing and measuring a liability resulting from a joint and several liability arrangement. The Task Force concluded that the amendments should not prescribe a specific account or accounts for the corresponding entry or entries because the corresponding entry or entries will depend on the facts and circumstances of the arrangement and the Task Force did not think that guidance could be developed that would be specific enough to be useful to preparers of financial statements while being applicable in all circumstances. Examples of corresponding entries include, but are not limited to, cash for proceeds from a debt arrangement, an expense for a legal settlement, a receivable (that is assessed for impairment) for a contractual arrangement, and an equity transaction with an entity under common control. In instances in which a legal or contractual arrangement exists to recover amounts funded under a joint and several obligation from the co-obligors, the Task Force noted that a receivable could be recognized at the time the corresponding liability is established. That receivable would need to be assessed for impairment. When no legal or contractual arrangement exists to recover the funded amounts from the co-obligors, the Task Force noted that an entity should consider all relevant facts and circumstances to determine whether the gain contingencies guidance in Subtopic 450-30 or other guidance would apply in recognizing a receivable for potential recoveries.

Recurring Disclosures

20. At the January 17, 2013 EITF meeting, the Task Force reached a consensus that the following disclosures should be required for each liability or each group of similar liabilities resulting from joint and several liability arrangements:

a. The nature of the arrangement, including how the liability arose, the relationship with other co-obligors, and the terms and conditions of the arrangement
b. The total outstanding amount under the arrangement, which should not be reduced by the effect of any amounts that may be recoverable from other entities
c. The carrying amount, if any, of the entity's liability and the carrying amount of a receivable recognized, if any
d. The nature of any recourse provisions that would enable recovery from other entities of the amounts paid, including any limitations on the amounts that might be recovered
e. In the period the liability is initially recognized and measured or in a period the measurement changes significantly, the corresponding entry and where the entry was recorded in the financial statements.

21. In addition, the Task Force decided to include a reference to the related-party disclosure requirements in Topic 850, Related Party Disclosures, since many obligations included in the scope of this Issue involve related parties.

Transition Method

22. At the January 17, 2013 EITF meeting, the Task Force affirmed as a consensus its consensus-for-exposure that the amendments resulting from this Issue should be applied retrospectively to all prior periods presented for those obligations resulting from joint and several liability arrangements that exist at the beginning of the entity's fiscal year of adoption. An entity that changes its accounting as a result of adopting the amendments resulting from this Issue may elect to use hindsight for the comparative periods and should disclose that fact.

Transition Disclosures

23. At the January 17, 2013 EITF meeting, the Task Force also affirmed as a consensus its consensus-for-exposure that entities should apply the transition disclosure requirements in paragraphs 250-10-50-1 through 50-3 for an accounting change resulting from this Issue. No additional transition disclosures would be required.

Effective Date

24. The Task Force reached a consensus that the amendments resulting from this Issue will be effective for fiscal years (and interim periods within those years) beginning after December 15, 2013. For nonpublic entities, amendments will be effective for fiscal years ending after December 15, 2014, and interim and annual periods thereafter. Earlier application is permitted.

Board Ratification

25. At the January 31, 2013 meeting, the Board ratified the consensus reached by the Task Force on this Issue.

Status

26. No further EITF discussion is planned.

Issue No. 12-F

Title: Recognition of New Accounting Basis (Pushdown) in Certain Circumstances

Date Discussed: January 17, 2013

Introduction

1. Current U.S. GAAP offers limited guidance for determining when, if ever, an acquiring entity's cost of acquiring an acquired entity should be used to establish a new accounting and reporting basis (pushdown) in the acquired entity's standalone financial statements. SEC Staff Accounting Bulletin Topic No. 5.J, New Basis of Accounting Required in Certain Circumstances, EITF Topic No. D-97, "Push-Down Accounting," and other comments made by the SEC Observer at EITF meetings (which are codified in paragraphs 805-50-S99-1 through S99-4), provide guidance for SEC registrants on the pushdown basis of accounting (certain financial institutions are required by their regulators to apply pushdown accounting in certain circumstances).

2. In the past, the Task Force has considered several issues that address pushdown accounting but has only reached a consensus on a few of them, including the application of pushdown accounting to non-SEC registrants (EITF Issue No. 86-9, "IRC Section 338 and Push-Down Accounting") and the change in accounting basis in master limited partnership transactions (EITF Issue No. 87-21, "Change of Accounting Basis in Master Limited Partnership Transactions"). In Issue 86-9, the Task Force concluded that pushdown accounting is not required for entities that are not SEC registrants even if an acquisition meets all of the following three conditions: (a) the acquired entity is neither an SEC registrant nor a party to the transaction effecting a change in ownership, (b) a step-up in tax basis is elected by the acquired entity, and (c) there are no compelling reasons for the acquired entity to retain the old basis. Similarly, in Issue 87-21, the Task Force concluded that pushdown accounting is not appropriate for any of the following transactions that create a master limited partnership: (a) rollup, (b) dropdown, (c) rollout, and (d) reorganization. Both Issues are codified in Subtopic 805-50, Business Combinations: Related Issues.

3. Since the SEC staff's guidance is only mandatory for SEC registrants, diversity in practice exists on the application of pushdown accounting by entities that are not SEC registrants. In addition, comparability issues have arisen due to the option in the SEC guidance to apply pushdown accounting when between 80 and 95 percent of an entity has been acquired. The FASB staff also notes that there is a significant number of practice issues that continue to arise on the application of pushdown accounting as a result of the limited guidance, including the absence of a basis for conclusions and a principle for when pushdown accounting should be applied.

Issue

4. The issue is whether a reporting entity should establish a new accounting basis in its standalone financial statements as a result of a transaction or other event in which an acquirer obtains a controlling financial interest in the reporting entity, and, if so, the resulting level of controlling ownership at which the new accounting basis should be required.

Working Group – Scope

5. The working group on this Issue met on July 26, 2012, to discuss the scope of this Issue. Working group members represented accounting firms, users, and preparers. The SEC staff observed the meeting. The working group explored several scope alternatives during the meeting ranging from the narrowest scope of addressing pushdown accounting issues in a purchase transaction to the broadest scope of developing overarching principles for all possible new basis issues. The working group recommended that the Task Force should pursue an approach under which this Issue should be applied by a reporting entity in its separate financial statements as a result of a transaction or other event in which an acquirer obtains controlling financial interest in the entity.

Scope

6. This objective of this Issue is to evaluate whether and, if so, when pushdown accounting should be applied in the separate financial statements of a reporting entity.

Current EITF Discussion

7. At the January 17, 2013 EITF meeting, the Task Force discussed the following three alternative views regarding the application of pushdown accounting and expressed a preference towards requiring pushdown accounting, but it was not clear what the threshold should be that would require an entity to apply pushdown accounting.

View A: A new accounting basis should be established when an acquirer obtains substantially all of the controlling financial interest in a reporting entity and thereby obtains control over the form of ownership of the reporting entity.

View B: A new accounting basis should be established when an acquirer obtains control of the reporting entity.

View C: A new accounting basis should not be established in an acquired entity's separate financial statements.

8. The FASB staff stated that their preliminary outreach to users indicated a mixed view on application of pushdown accounting. The Task Force asked the FASB staff to perform additional outreach with users of financial statements to understand the relevance of pushdown accounting in standalone financial statements of an entity before reaching a consensus-for-exposure on the alternatives presented. Additionally, Task Force members expressed concern about the application of pushdown accounting to a nonpublic entity's financial statements and asked the FASB staff to solicit feedback from private company preparers and users as well as the Private Company Council members on this particular issue. Task Force members acknowledged that depending upon the alternatives selected, follow-on issues would need to be considered by the Task Force to ensure operability and the consistent application of any future proposed guidance.

Status

9. Further discussion is expected at a future EITF meeting.

Issue No. 12-H

Title: Accounting for Service Concession Arrangements

Date Discussed: January 17, 2013

Introduction

1. Service concession arrangements are contracts under which a public sector entity (grantor) grants a private entity (an operating entity), the right to operate and/or maintain the grantor's infrastructure assets (for example, airports, roads, bridges, tunnels, prisons, and hospitals). The infrastructure may already exist or may be constructed by the operating entity during the period of the service concession arrangement. If the infrastructure already exists, the operating entity may be required to provide significant upgrades as part of the arrangement. The grantor controls any residual interest in the assets at the end of the term of the arrangement. These arrangements are commonly referred to as "public-to-private" service concession contracts.

2. In a typical service concession contract, an operating entity operates and maintains for a period of time the infrastructure that will be used to provide the public service. In exchange, the operating entity may receive payments from the grantor to perform those services. Such payments may be paid as the services are performed over an extended period of time. Alternatively, the operating entity may be given a right to charge the public (the third-party users) to use the infrastructure. The contract may also contain an unconditional guarantee under which the grantor would provide a guaranteed minimum payment if the fees collected from the public do not reach a specified minimum threshold. The grantor generally controls and has the ability to modify or approve the services the operating entity must provide using the infrastructure, to whom the services will be provided, and the price that will be paid for the services. The contract may set out performance standards, pricing mechanisms, and arrangements for arbitrating disputes.

3. In addition, the operating entity may be required to make an upfront cash payment to the grantor in exchange for the right to use and operate the grantor's infrastructure. In such contracts, the operating entity is generally given the right to charge users of the infrastructure.

4. Service concession contracts can take many different forms; however, a key feature is the public service nature of the obligation undertaken by the operating entity. In addition to the above, other common aspects of service concession contracts include:

   a. The operating entity constructs the infrastructure for the grantor, provides significant upgrades to the grantor's existing infrastructure, makes a cash payment to the grantor, or provides a combination of these kinds of features.
   b. The contracted services provided by the operating entity to the public on behalf of the grantor must meet minimum performance standards.
   c. At the end of the term of the contract, the grantor controls the residual interest in the infrastructure and may specify the minimum condition(s) that the infrastructure must be in at the end of the term.

5. For example, an operating entity might agree to a service concession contract for a toll road for public use under which the operating entity agrees to the following conditions:

a. Making an upfront payment to the grantor.
b. Operating and keeping the roadway and toll booths in good working condition. In addition, the operating entity must resurface the roadway every five years and have at least two toll booths open at all times.
c. Receiving the right to collect, for its own interest, charges from third–party users (motorists) of the toll road. Pricing is established in the agreement and the operating entity must seek approval from the grantor to change the toll charged per motor vehicle using the roadway.
d. At the end of the contract, conveying any residual interest in the roadway and toll booths to the grantor.

6. U.S. GAAP does not have accounting guidance that specifically addresses accounting for service concession arrangements. Depending on the terms of a service concession arrangement, operating entities may conclude that an arrangement does not meet the lease criteria in Topic 840, Leases. In those circumstances some entities may account for their rights over the infrastructure in a service concession contract by applying the principles in IFRIC 12, *Service Concession Arrangements*, and account for their rights as an intangible asset, a financial asset, or both.

Issue

7. This Issue addresses how an operating entity should account for its rights over the infrastructure in a service concession arrangement with a grantor.

Scope

8. This Issue applies to the accounting for an operating entity that enters into a public-to-private service concession arrangement with a grantor. This Issue applies to the accounting by operating entities when both of the following conditions exist:

a. The grantor controls or has the ability to modify or approve what services the operating entity must provide with the infrastructure, to whom it must provide them, and at what price
b. The grantor controls, through ownership, beneficial entitlement, or otherwise any residual interest in the infrastructure at the end of the term of the arrangement.

9. This Issue applies to public services that relate to the primary function of the infrastructure (for example, operating a hospital) and therefore would exclude ancillary services that are operated in conjunction with the infrastructure (for example, operating the gift shop at the hospital). Other examples of contracts that are not within the scope of this Issue include outsourcing the operation of internal services (for example, the employee cafeteria, building maintenance, and accounting or information technology functions).

Current EITF Discussion

10. At the January 17, 2013 EITF meeting, the Task Force tentatively concluded that an operating entity should account for its rights over the infrastructure in a service concession arrangement within the scope of this Issue as an intangible asset, a financial asset, or both. The Task Force tentatively concluded that the accounting for service concession arrangements should be determined based on whether the operating entity *controls* the infrastructure that is being used to provide the public service. The Task Force considered that the operating entity may have wide managerial discretion in operating the infrastructure; however, it does not control the use of the infrastructure because the grantor determines what services the operating entity must provide with the infrastructure, to whom it must provide them, and at what price. The grantor controls any residual interest in the infrastructure at the end of the term of the arrangement. Therefore, service concession arrangements within the scope of this Issue should not be accounted for as leases under Topic 840 because the operating entity does not have the right to control the use of the grantor's infrastructure.

11. Some Task Force members raised concerns about the scope of this Issue including whether other types of arrangements should be included (for example, private-to-private service concession arrangements). The Task Force concluded that the scope should not be expanded because public-to-private service concession arrangements are the primary arrangements for which guidance is being sought by stakeholders.

12. Task Force members also discussed whether guidance may be needed for other elements of service concession arrangements (for example, how to account for construction or upgrade services). The Task Force concluded that some aspects of service concession arrangements are currently being addressed in other ongoing FASB projects (for example, the FASB and IASB joint project on revenue) and are not the primary issue on which authoritative guidance is being sought. The Task Force requested that the FASB staff prepare a draft Update on the basis of this tentative conclusion for discussion at a future EITF meeting.

Status

13. Further discussion is expected at a future EITF meeting.

Issue No. 13-A

Title: Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes

Date Discussed: January 17, 2013

Introduction

1. Topic 815, Derivatives and Hedging, provides guidance on the risks that are permitted to be hedged in a fair value or cash flow hedge. Among those risks for financial assets and financial liabilities is the risk of changes in a hedged item's fair value or a hedged transaction's cash flows attributable to changes in the designated benchmark interest rate (referred to as interest rate risk).

2. For simplicity, the stated interest rate in a financial asset or liability can be characterized as containing two components, a risk-free rate and a credit spread. In permitting the hedge of the benchmark interest rate risk in Topic 815, the Board was providing a practical means to designate the risk of changes in the hedged item attributable to changes in the risk-free component of the interest rate (that is, benchmark interest rate risk, which, in theory, is the risk-free component) in isolation, without requiring that an entity also hedge changes in the spread (which is deemed to reflect credit risk) above the benchmark interest component. In the United States, currently only the interest rates on direct Treasury obligations of the U.S. government (UST) and, for practical reasons, the London Interbank Offered Rate (LIBOR) swap rate are considered benchmark interest rates.

3. During its deliberations at the time of issuing the derivatives and hedging guidance, the Board considered whether other rates in the U.S. financial markets, such as the Fed Funds rate, should be included in the definition of benchmark interest rate. At the time, the Board rejected the Fed Funds rate as a benchmark rate in the United States and decided that allowing more than two benchmark rates (that is, UST and LIBOR) to define interest rate risk was unnecessary and would make the resulting financial statements more difficult to understand. Therefore, currently other such indexes may not be used as the benchmark interest rate in the U.S.

4. The Fed Funds rate is the interest rate at which depository institutions (for example, banks) actively trade balances held at the Federal Reserve with each other, usually overnight. Institutions with surplus balances in their accounts lend those balances to institutions in need of larger balances. The weighted average of this rate across all such transactions on any given day is the daily Fed Funds effective rate. The related Fed Funds Effective Swap Rate (which represents the Overnight Index Swap Rate or OIS in the United States) is the fixed rate swapped in exchange for a floating overnight rate, which is the Fed Funds effective rate. Thus, in the United States, the relationship between the Fed Funds effective rate and the Fed Funds Effective Swap Rate (OIS) is the same as the relationship between LIBOR and the London Interbank Offered Rate Swap rate (as defined in the Master Glossary).

5. As a result of the financial crisis in 2008, the exposure to and the demand for hedging the Fed Funds rate have increased significantly. That demand has been driven by an increased focus by banks on their sources of funding (including an increased focus on overnight interbank

borrowings of surplus balances held at the Federal Reserve), the greater (and sometimes volatile) spread between LIBOR and OIS, and new regulatory measures to curb systemic risks such as U.S. legislation that requires greater clearing of derivatives through exchanges or clearinghouses (which must be collateralized). The increased prevalence of OIS in the marketplace can also be seen in derivatives valuation, where practice is evolving such that some believe that the appropriate discount rate to use in the valuation of collateralized derivatives should be based on OIS, because that rate reflects the lower cost of financing a collateralized instrument. This has caused derivative counterparties to be more exposed to overnight rates even on derivatives whose cash flows are based on LIBOR resets and has resulted in incremental ineffectiveness in certain hedging relationships. Therefore, some derivative counterparties believe that OIS should be permitted as a benchmark interest rate in the U.S. for hedge accounting purposes.

Issue

6. The Issue is whether the Fed Funds Effective Swap Rate (OIS) should be included as a U.S. benchmark interest rate for hedge accounting purposes.

Current EITF Discussion

7. At the January 17, 2013 EITF meeting, the Task Force reached a consensus-for exposure to include the Fed Funds Effective Swap Rate (OIS) as a U.S. benchmark interest rate for hedge accounting purposes. As the exposure to and importance of OIS have increased significantly, the Task Force determined that OIS should be an acceptable U.S. benchmark interest rate for hedge accounting purposes and that OIS meets the criteria to be a benchmark rate. OIS is indicative of high-quality borrowing rates and the extent of the credit risk associated with OIS rates is low because OIS is derived from an overnight transfer of funds rate, which inherently limits credit risk exposure. Furthermore, OIS is evolving as a widely recognized and quoted rate that is broadly indicative of the overall level of interest rates attributable to high-credit-quality obligors in the U.S. market. It is a rate that is becoming more widely used in the U.S. financial market as an underlying basis for determining the interest rates of certain individual financial instruments, including collateralized derivatives, and the underlying Fed Funds rate is commonly referenced in interest-rate-related transactions as being the rate at which depository institutions (for example, banks) actively trade balances held at the Federal Reserve with each other..

8. A Task Force member noted that paragraph 815-20-25-6 provides that ordinarily an entity shall designate the same benchmark interest rate as the risk being hedged for similar hedges and that the use of different benchmark interest rates for similar hedges shall be rare and shall be justified. The Task Force clarified that, regardless of existing hedging relationships, the inclusion of a new rate as a benchmark interest rate would justify an entity's election to apply OIS-based benchmark interest rate hedge accounting for qualifying new or redesignated hedging relationships entered into on or after the date of adoption.

Recurring Disclosures

9. The Task Force also reached a consensus-for-exposure that no additional recurring disclosures should be required by this Issue.

Transition and Transition Disclosures

10. The Task Force reached a consensus-for-exposure that this Issue should be applied on a prospective basis for qualifying new or redesignated hedging relationships entered into on or after the date of adoption. To qualify for hedge accounting, which is optional, Topic 815 requires formal designation and documentation of the hedging relationship before hedge accounting may be applied. Since retrospective application would be contrary to the contemporaneous hedge documentation requirements, the Task Force decided that the proposed guidance can only be applied on a prospective basis for qualifying new or redesignated hedging relationships entered into on or after the date of adoption. The Task Force also reached a consensus-for exposure that no additional transition disclosures should be required by this Issue.

Effective Date

11. While the Task Force did not reach a consensus-for-exposure on the effective date (decisions on effective date are only reached after a consensus-for-exposure has been exposed for public comment and the feedback considered by the Task Force in redeliberations), the Task Force indicated that if it affirms its consensus-for-exposure as a final consensus in a future meeting, they would consider whether the effective date of this Issue should coincide with the issuance date of the final consensus.

Board Ratification

12. At its January 31, 2013 meeting, the Board ratified the consensus-for exposure reached by the Task Force in this Issue and approved the issuance of a proposed Update for a 60-day public comment period.

Status

13. Further discussion is expected at a future EITF meeting.

Issue No. 13-C

Title: Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward or Tax Credit Carryforward Exists

Date Discussed: January 17, 2013

Introduction

1. In some circumstances, the settlement of an unrecognized tax benefit does not result in a cash payment because it is settled by reducing a net operating loss (NOL) carryforward or tax credit carryforward. For example, U.S. tax law requires that an entity's taxable income be reduced by available NOL carryforwards and carrybacks. The IRS cannot require a taxpayer to settle a disallowed uncertain tax position in cash if sufficient NOL carryforwards are available to eliminate the additional taxable income. In addition, the IRS does not permit a taxpayer to choose when to use its NOL carryforwards; the taxpayer is required to use NOL carryforwards in the first year taxable income arises.

2. Topic 740, Income Taxes, does not include explicit guidance on whether and when an entity should present an unrecognized tax benefit as a liability or as a reduction of NOL carryforwards or other tax credit carryforwards related to the same jurisdiction. The FASB staff previously received technical inquiries about the presentation of unrecognized tax benefits. The FASB staff's response, which is not authoritative U.S. GAAP, was that the presentation of the liability for an unrecognized tax benefit depends on the relationship between the unrecognized tax benefit and the NOL carryforwards. If an unrecognized tax benefit is directly associated with a tax position taken in a tax year that results in or that resulted in the recognition of an NOL carryforward for that year (and the NOL carryforward has not yet been utilized), the unrecognized tax benefit should be presented as a reduction to the NOL carryforward; otherwise, it should be presented as a liability.

3. Although a majority of entities appear to present unrecognized tax benefits consistent with the FASB staff's responses to the aforementioned technical inquiries, there appears to be some diversity in practice attributable to the absence of explicit guidance within U.S. GAAP.

Issue

4. This Issue seeks to resolve the diversity in practice resulting from how entities account for an unrecognized tax benefit in the statement of financial position when non-recognition of the tax benefit would otherwise reduce a deferred tax asset related to an NOL carryforward or tax credit carryforward under the provisions of the tax law.

Scope

5. This Issue applies to unrecognized tax benefits associated with tax positions not meeting the more-likely-than-not recognition criteria in Section 740-10-25 for all entities with activities subject to income taxes.

Current EITF Discussion

6. At the January 17, 2013 EITF meeting, the Task Force reached a consensus-for-exposure to require presentation in the statement of financial position of any unrecognized tax benefit as a reduction of a deferred tax asset for an NOL carryforward or tax credit carryforward (rather than as a liability) except to the extent an NOL carryforward or tax credit carryforward at the reporting date is not available under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, wherein the unrecognized tax benefit shall be presented in the statement of financial position as a liability.

7. The Task Force determined that the tax provision should be prepared as if the uncertain tax position was not claimed in the tax return. If uncertain tax positions were settled with the taxing authority on the basis recognized and measured, the position's resolution effectively amounts to additional taxable income or income tax. If under the governing tax law, the NOL carryforward or the tax credit carryforward would be applied to the additional liability that would arise in the event that the uncertain tax position is not sustained and the settlement related to the uncertain tax position will not result in a payment of taxes but instead will reduce the NOL carryforward or the tax credit carryforward, then the presentation in the statement of financial position of the deferred tax asset should be reduced for the unrecognized tax benefit accordingly.

8. Task Force members noted that the proposed presentation is both consistent with how income taxes are often determined and in agreement with the intent of the offsetting guidance within Subtopic 210-20, Balance Sheet—Offsetting (formerly FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts). In many jurisdictions, unrecognized tax benefits and NOL carryforwards satisfy the conditions of paragraph 210-20-45-1 (particularly criteria (b), (c), and (d) addressing the right, the intention, and the enforceability of the entity to setoff), because the unrecognized tax benefits would be offset under the provisions of the tax law.

9. The Task Force also noted that paragraph 740-10-50-15A will continue to require a public entity to disclose a rollforward of its unrecognized tax benefits and that the net presentation in the statement of financial position accompanied by the existing gross disclosure requirements would be useful in the analysis of the financial statements and in understanding risk associated with entities' tax positions.

Recurring Disclosures

10. The Task Force reached a consensus-for-exposure that no additional recurring disclosures would be required by this Issue because the amendments do not affect the recognition or measurement of uncertain tax positions under Topic 740 and the currently required tabular reconciliation of the gross amount of unrecognized tax benefits will provide public entity users with relevant information about the unrecognized tax benefits offset against net operating loss carryforwards or tax credit carryforwards.

Transition

11. The Task Force reached a consensus-for-exposure that entities should apply this Issue retrospectively to all periods presented with earlier application permitted. The Task Force observed that retrospective application would enhance comparability and that the costs associated with application of the proposed guidance may not be significant because entities

would have identified their unrecognized tax positions for their prior period tax calculations and disclosures. The Task Force decided to solicit stakeholder input about the retrospective approach by including a question for respondents in the proposed Update.

Transition Disclosures

12. The Task Force reached a consensus-for-exposure that entities should apply the transition disclosure requirements in Subtopic 250-10, Accounting Changes and Error Corrections—Overall, for an accounting change resulting from this Issue. No additional transition disclosures would be required.

Board Ratification

13. At its January 31, 2013 meeting, the Board ratified the consensus-for exposure reached by the Task Force in this Issue and approved the issuance of a proposed Update for a 60-day public comment period.

Status

14. Further discussion is expected at a future EITF meeting.

FASB EMERGING ISSUES TASK FORCE

Proposed March 14, 2013 Meeting Agenda

Issue Number	Issue	Proposed Time	Staff Assigned
	Administrative Matters	8:30-8:45	Gupta
12-B	Not-for-Profit Entities: Services Received from Personnel of an Affiliate for Which the Affiliate Does Not Seek Compensation	8:45-9:45	Goswami/ Maroney
	* * * BREAK * * *	9:45-10:00	
12-G	Accounting for the Difference between the Fair Value of the Assets and the Fair Value of the Liabilities of a Consolidated Collateralized Financing Entity	10:00-11:00	Brown/ McKinney
13-B	Accounting for Investments in Tax Credits	11:00-12:00	Brown/ Or
	* * * LUNCH * * *	12:00-1:00	
12-H	Accounting for Service Concession Arrangements	1:00-2:00	Gagnon/ Mottley
	* * * BREAK * * *	2:00-2:15	
12-F	Recognition of New Accounting Basis (Pushdown) in Certain Circumstances	2:15-3:30	Gupta/ Or

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 that will be added to the proposed agenda for the March 14, 2013 meeting will be 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
12-B	Not-for-Profit Entities: Services Received from Personnel of an Affiliate for Which the Affiliate Does Not Seek Compensation	2/12	3/12, 6/12, 1/13	3/13	Althoff	Goswami/ Maroney	The FASB staff will prepare an Issue Supplement summarizing the results of additional outreach performed on this Issue	March 14, 2013 EITF meeting
12-F	Recognition of New Accounting Basis (Pushdown) in Certain Circumstances	5/12	1/13	3/13	Evans	Gupta/ Or	The FASB staff will prepare an Issue Supplement summarizing the results of additional outreach performed on this Issue	March 14, 2013 EITF meeting
12-G	Accounting for the Difference between the Fair Value of the Assets and the Fair Value of the Liabilities of a Consolidated Collateralized Financing Entity	7/12	9/12	3/13	Day	Brown/ McKinney	The FASB staff will prepare an Issue Supplement addressing comments received on the proposed Update	Comment deadline December 10, 2012; March 14, 2013 EITF meeting

Issue No.	Description	Date Added	Date(s) Discussed	Next Meeting	EITF Liaison	FASB Staff	Immediate Plans	Due Date - Next Deliverable
12-H	Accounting for Service Concession Arrangements	9/12	1/13	3/13	Althoff	Gagnon/ Mottley	The FASB staff will prepare a staff draft of the proposed Update to reflect the tentative decisions reached by the Task Force at the January 2013 meeting	Staff draft of the proposed Update; March 14, 2013 EITF meeting
13-A	Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes	11/12	1/13	6/13	Uhl	Goswami/ Kane	The FASB staff will prepare an Issue Supplement addressing comments received on the proposed Update	Comment deadline late April 2013; June 11, 2013 EITF meeting
13-B	Accounting for Investments in Tax Credits	11/12	N/A	3/13	Day	Brown/ Or	The FASB staff will prepare an Issue Summary	March 14, 2013 EITF meeting
13-C	Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward or Tax Credit Carryforward Exists	11/12	1/13	6/13	Bielstein	Walsh/ Irwin	The FASB staff will prepare an Issue Supplement addressing comments received on the proposed Update	Comment deadline late April 2013; June 11, 2013 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	Statement 166 addressed this Issue and, therefore, the FASB staff will request that the Issue be removed from the EITF's technical agenda at a future meeting.	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	No immediate plans to address this Issue.	Future EITF Meeting
09-D	Application of the AICPA Audit and Accounting Guide, Investment Companies, by Real Estate Investment Companies	2/09	N/A	Not scheduled	TBD	Pending the outcome of the Board's projects on consolidation, investment companies, and investment properties.	Future EITF Meeting
10-B	Accounting for Multiple Foreign Exchange Rates	3/10	7/10, 9/10	Not scheduled	TBD	No immediate plans to address this Issue.	N/A

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

FINANCIAL ACCOUNTING SERIES

ACCOUNTING STANDARDS UPDATE

No. 2013-XX
February 2013

Foreign Currency Matters (Topic 830)

Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity

a consensus of the FASB Emerging Issues Task Force

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board
of the Financial Accounting Foundation

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Accounting Standards Update

No. 2013-XX
February 2013

Foreign Currency Matters (Topic 830)

Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity

An Amendment of the FASB Accounting Standards Codification®

Financial Accounting Standards Board
of the Financial Accounting Foundation
401 MERRITT 7, PO BOX 5116, NORWALK, CONNECTICUT 06856-5116

Accounting Standards Update 2013-XX

Foreign Currency Matters (Topic 830)

Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity

February 2013

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Summary

Why Is the FASB Issuing This Accounting Standards Update (Update)?

The objective of the amendments in this Update is to resolve the diversity in practice about whether Subtopic 810-10, Consolidation—Overall, or Subtopic 830-30, Foreign Currency Matters—Translation of Financial Statements, applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment *in* a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) *within* a foreign entity.

Subtopic 810-10, as amended by Accounting Standards Update No. 2010-02, *Consolidation (Topic 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary—a Scope Clarification,* requires that a parent deconsolidate a subsidiary or derecognize a group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) if the parent ceases to have a controlling financial interest in that group of assets. The derecognition guidance in Subtopic 810-10 supports releasing the cumulative translation adjustment into net income upon the loss of a controlling financial interest in such a subsidiary or group of assets. That guidance does not distinguish between sales or transfers pertaining to an investment *in* a foreign entity (as defined in Topic 830) and those pertaining to a subsidiary or group of assets *within* a foreign entity. Subtopic 830-30, however, provides for the release of the cumulative translation adjustment into net income only if a sale or transfer represents a sale or complete or substantially complete liquidation of an investment *in* a foreign entity.

In addition, the amendments in this Update resolve the diversity in practice for the treatment of business combinations achieved in stages (sometimes also referred to as step acquisitions) involving a foreign entity. Some entities view step acquisitions as being composed of two events, the disposition of an equity method investment and simultaneous acquisition of a controlling financial interest. Those entities generally release the cumulative translation adjustment related to the equity method investment. Those entities that view step acquisitions as being composed of a single event (increasing an investment) generally do not release the cumulative translation adjustment in practice.

Who Is Affected by the Amendments in This Update?

The amendments in this Update affect entities that cease to hold a controlling financial interest (as described in Subtopic 810-10) in a subsidiary or group of assets *within* a foreign entity when (1) the subsidiary or group of assets is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) and (2) there is a cumulative translation adjustment balance associated with that foreign entity. The amendments also affect entities that lose a controlling financial interest in an investment *in* a foreign entity (by sale or other transfer event) and those that acquire a business in stages (sometimes also referred to as a step acquisition) by increasing an investment *in* a foreign entity from one accounted for under the equity method to one accounted for as a consolidated investment.

What Are the Main Provisions?

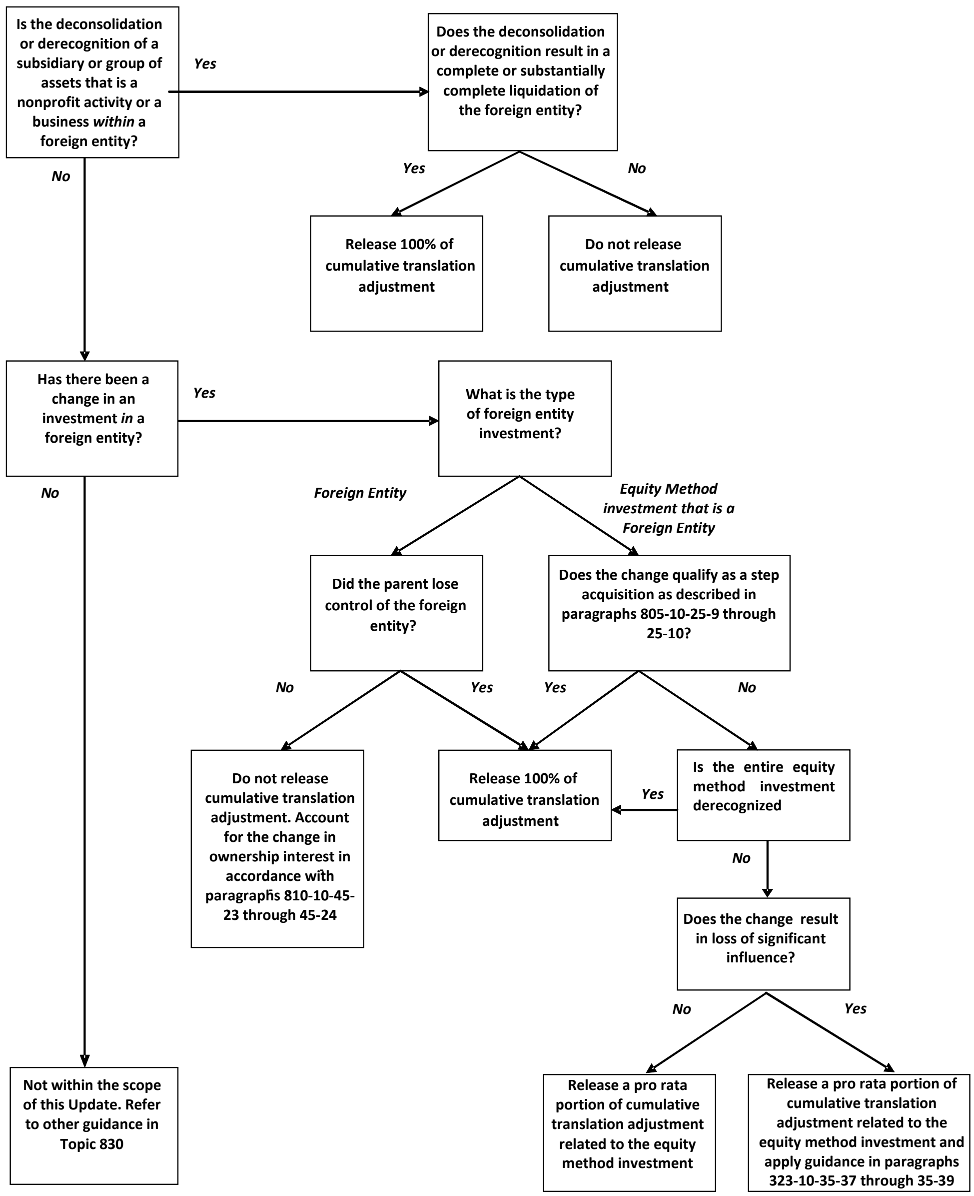
When a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) *within* a foreign entity, the parent is required to apply the guidance in Subtopic 830-30 to release any related cumulative translation adjustment into net income. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided.

For an equity method investment that is a foreign entity, the partial sale guidance in Section 830-30-40 still applies. As such, a pro rata portion of the cumulative translation adjustment should be released into net income upon a partial sale of such an equity method investment. However, this treatment does not apply to an equity method investment that is not a foreign entity. In those instances, the cumulative translation adjustment is released into net income only if the partial sale represents a complete or substantially complete liquidation of the foreign entity that contains the equity method investment.

Additionally, the amendments in this Update clarify that the sale of an investment *in* a foreign entity includes both (1) events that result in the loss of a controlling financial interest in a foreign entity (that is, irrespective of any retained investment) and (2) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date (sometimes also referred to as a step acquisition). Accordingly, the cumulative translation adjustment should be released into net income upon the occurrence of those events.

The following flow chart illustrates this Update's amendments to the cumulative translation adjustment derecognition guidance in Subtopic 830-30 for the derecognition of certain subsidiaries or groups of assets within a foreign entity and for changes in an investment in a foreign entity. The flow chart is not intended to illustrate all derecognition events that could be within the scope of Subtopic 830-30.

Release of Cumulative Translation Adjustment



How Do the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

The amendments in this Update clarify the applicable guidance for the release of the cumulative translation adjustment under current U.S. GAAP. The Board concluded that the amendments resolve the diversity in practice about whether the guidance in Subtopic 830-30 applies to the release of the cumulative translation adjustment when an entity ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) *within* a foreign entity. Likewise, the Board concluded that the amendments resolve the diversity in practice about whether Subtopic 830-30 applies to the release of the cumulative translation adjustment when there is a loss of a controlling financial interest *in* a foreign entity or a step acquisition involving an equity method investment that is a foreign entity. The Board also concluded that the amendments improve current U.S. GAAP by emphasizing that the accounting for the release of the cumulative translation adjustment into net income for sales or transfers of a controlling financial interest *within* a foreign entity is the same irrespective of whether the sale or transfer is of a subsidiary or a group of assets (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) that is a nonprofit activity or business.

When Will the Amendments Be Effective?

The amendments in this Update are effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. For nonpublic entities the amendments in this Update are effective prospectively for the first annual period beginning after December 15, 2014, and interim and annual periods thereafter. The amendments should be applied prospectively to derecognition events occurring after the effective date. Prior periods should not be adjusted. Early adoption is permitted. If an entity elects to early adopt the amendments, it should apply them as of the beginning of the entity's fiscal year of adoption.

How Do the Provisions Compare with International Financial Reporting Standards (IFRS)?

The amendments eliminate certain existing differences in accounting and reporting between U.S. GAAP and IFRS. The guidance in FASB Statement No. 52, *Foreign Currency Translation* (codified in Topic 830), was not developed jointly with the IASB. However, similar to this Update, the IASB's foreign currency translation guidance in IAS 21, *The Effects of Changes in Foreign Exchange*

Rates, addresses disposals and partial disposals of a foreign operation. IAS 21 requires that the entire cumulative amount of exchange differences relating to a foreign operation be reclassified from equity to profit or loss upon disposal of a reporting entity's entire interest in the foreign operation or, for partial disposals, when the partial disposal involves the loss of the control of a subsidiary that includes a foreign operation, even if the entity retains an interest in the former subsidiary after the partial disposal, among other circumstances. An entity may dispose or partially dispose of its interest in a foreign operation through sale, liquidation, repayment of share capital, or abandonment of all, or part of, that entity.

IFRS 3, *Business Combinations,* provides guidance for applying the acquisition method in a business combination achieved in stages. IFRS 3 requires the reclassification of the changes in value of the acquirer's equity interest that had been previously recognized in other comprehensive income to profit or loss when control is obtained. That includes amounts related to the cumulative amount of the exchange differences relating to a foreign operation recognized in other comprehensive income.

Unlike this Update, IAS 21 does not contain guidance on the reclassification of the cumulative amount of exchange differences either with respect to the loss of a controlling financial interest in a group of assets (that is not a subsidiary) or with respect to the sales or transfers within a foreign entity.

Amendments to the *FASB Accounting Standards Codification*®

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–10. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~. **[Note: The definition of Foreign Entity is shown for convenience.]**

Master Glossary

Foreign Entity

An operation (for example, subsidiary, division, branch, joint venture, and so forth) whose financial statements are both:

a. Prepared in a currency other than the reporting currency of the reporting entity

b. Combined or consolidated with or accounted for on the equity basis in the financial statements of the reporting entity.

Amendments to Subtopic 220-10

2. Amend paragraph 220-10-45-16, with a link to transition paragraph 830-30-65-1, as follows:

Comprehensive Income—Overall

Other Presentation Matters

> Reclassification Adjustments

220-10-45-16 An entity shall determine reclassification adjustments for each component of other comprehensive income, except as noted in the following paragraph. The requirement for a reclassification adjustment for foreign currency translation adjustments is limited to translation gains and losses realized upon sale or upon complete or substantially complete liquidation of an investment in a foreign entity (see ~~paragraph~~ paragraphs 830-30-40-1 through 40-1A).

Amendments to Subtopic 805-10

3. Amend paragraph 805-10-25-10, with a link to transition paragraph 830-30-65-1, as follows:

Business Combinations—Overall

Recognition

>> A Business Combination Achieved in Stages

805-10-25-9 An acquirer sometimes obtains control of an acquiree in which it held an equity interest immediately before the acquisition date. For example, on December 31, 20X1, Entity A holds a 35 percent noncontrolling equity interest in Entity B. On that date, Entity A purchases an additional 40 percent interest in Entity B, which gives it control of Entity B. This Topic refers to such a transaction as a business combination achieved in stages, sometimes also referred to as a step acquisition.

805-10-25-10 In a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date **fair value** and recognize the resulting gain or loss, if any, in earnings. In prior reporting periods, the acquirer may have recognized changes in the value of its equity interest in the acquiree in other comprehensive income (for example, because the investment was classified as available for sale). If so, the amount that was recognized in other comprehensive income shall be reclassified and included in the calculation of gain or loss as of the acquisition date. If the business combination achieved in stages relates to a previously held equity method investment that is a **foreign entity**, the amount of accumulated other comprehensive income that is reclassified and included in the calculation of gain or loss shall include any foreign currency translation adjustment related to that previously held investment. For guidance on derecognizing foreign currency translation adjustments recorded in accumulated other comprehensive income, see Section 830-30-40.

Amendments to Subtopic 810-10

4. Amend paragraph 810-10-40-4 and add paragraph 810-10-40-4A, with a link to transition paragraph 830-30-65-1, as follows:

Consolidation—Overall

Derecognition

> Deconsolidation of a Subsidiary or Derecognition of a Group of Assets

810-10-40-3A The deconsolidation and derecognition guidance in this Section applies to the following:

- a. A subsidiary that is a **nonprofit activity** or a business, except for either of the following:
  1. A sale of in substance real estate (for guidance on a sale of in substance real estate, see Subtopic 360-20 or 976-605)
  2. A conveyance of oil and gas mineral rights (for guidance on conveyances of oil and gas mineral rights and related transactions, see Subtopic 932-360).
- b. A group of assets that is a nonprofit activity or a business, except for either of the following:
  1. A sale of in substance real estate (for guidance on a sale of in substance real estate, see Subtopic 360-20 or 976-605)
  2. A conveyance of oil and gas mineral rights (for guidance on conveyances of oil and gas mineral rights and related transactions, see Subtopic 932-360).
- c. A subsidiary that is not a nonprofit activity or a business if the substance of the transaction is not addressed directly by guidance in other Topics that include, but are not limited to, all of the following:
  1. Topic 605 on revenue recognition
  2. Topic 845 on exchanges of nonmonetary assets
  3. Topic 860 on transferring and servicing financial assets
  4. Topic 932 on conveyances of mineral rights and related transactions
  5. Topic 360 or 976 on sales of in substance real estate.

810-10-40-4 A parent shall deconsolidate a subsidiary or derecognize a group of assets specified in ~~the preceding~~ paragraph 810-10-40-3A as of the date the parent ceases to have a controlling financial interest in that subsidiary or group of assets. See paragraph 810-10-55-4A for related implementation guidance.

810-10-40-4A When a parent deconsolidates a subsidiary or derecognizes a group of assets within the scope of paragraph 810-10-40-3A, the parent relationship ceases to exist. The parent no longer controls the subsidiary's assets and liabilities or the group of assets. The parent therefore shall derecognize the assets, liabilities, and equity components related to that subsidiary or group of assets. The equity components will include any noncontrolling interest as well as amounts previously recognized in accumulated other comprehensive income. If the subsidiary or group of assets being deconsolidated or derecognized is a **foreign entity** (or represents the complete or substantially complete liquidation of the foreign entity in which it resides), then the amount of accumulated other comprehensive income that is reclassified and included in the calculation of gain or loss shall include any foreign currency translation adjustment related to that foreign entity. For guidance on derecognizing foreign currency translation adjustments recorded in accumulated other comprehensive income, see Section 830-30-40.

Amendments to Subtopic 830-30

5. Amend paragraphs 830-30-40-1 through 40-3 and add paragraph 830-30-40-1A, with a link to transition paragraph 830-30-65-1, as follows:

Foreign Currency Matters—Translation of Financial Statements

Derecognition

> Sale or Liquidation of an Investment in a Foreign Entity

830-30-40-1 Upon sale or upon complete or substantially complete liquidation of an investment in a **{add glossary link}**foreign entity**{add glossary link}**, the amount attributable to that entity and accumulated in the translation adjustment component of equity shall be both:

a. Removed from the separate component of equity
b. Reported as part of the gain or loss on sale or liquidation of the investment for the period during which the sale or liquidation occurs.

830-30-40-1A A sale shall include:

a. The loss of a controlling financial interest in an investment in a foreign entity resulting from circumstances contemplated by Subtopic 810-10 (see paragraph 810-10-55-4A for related implementation guidance)
b. An acquirer obtaining control of an acquiree in which it held an equity interest, accounted for as an equity method investment that is a foreign entity, immediately before the acquisition date in a business combination achieved in stages (see paragraphs 805-10-25-9 through 25-10).

> > Partial Sale of Ownership Interest

830-30-40-2 If a **reporting entity** sells part of its ownership interest in an equity method investment that is~~in~~ a foreign entity, a pro rata portion of the accumulated translation adjustment component of equity attributable to that equity method investment shall be recognized in measuring the gain or loss on the sale. If the sale of part of an equity method investment that is a foreign entity results in the loss of significant influence, see paragraphs 323-10-35-37 through 35-39 for guidance on how to account for the pro rata portion of the accumulated translation adjustment component of equity attributable to the remaining investment. For guidance if an entity sells a noncontrolling interest ~~part of its ownership interest~~ in a consolidated foreign entity but still retains a controlling financial interest in the foreign entity, see paragraph 810-10-45-23 through 45-24 ~~Subtopic 810-10~~.

830-30-40-3 Although ~~A~~ partial ~~liquidation~~liquidations by a ~~subsidiary~~ parent of net assets held within a foreign entity may be considered ~~to be~~ similar to a sale of part of an ownership interest in the foreign entity if the liquidation proceeds are distributed to the parent~~. However~~, extending pro rata recognition (release of the cumulative translation adjustment into net income) to such partial liquidations would require that their substance be distinguished from ordinary dividends. Such a distinction is neither possible nor desirable. For those partial liquidations, no cumulative translation adjustment is released into net income until the criteria in paragraph 830-30-40-1 are met. ~~This paragraph is restricted to clarifying that a sale includes an investor's partial, as well as complete, disposal of its ownership interest.~~

6. Add paragraph 830-30-65-1 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2013-XX, *Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity*

830-30-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2013-XX, *Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity:*

a. The pending content that links to this paragraph shall be effective as follows:
    1. For fiscal years, and interim periods within those years, beginning after December 15, 2013.

    2. For **{add glossary link to 1st definition}nonpublic entities{add glossary link to 1st definition}**, for fiscal years beginning after December 15, 2014, and interim and annual periods thereafter.
b. The pending content that links to this paragraph shall be applied prospectively by an entity to all of the following:
    1. A sale or transfer of a subsidiary or group of assets that is a nonprofit activity or a business within the scope of paragraph 810-10-40-3A within a foreign entity after the effective date
    2. A sale of ownership interests in a foreign entity after the effective date
    3. A business combination achieved in stages after the effective date.

   Prior periods shall not be adjusted.
c. Earlier application of the pending content that links to this paragraph is permitted. If early application is elected, an entity shall apply the pending content that links to this paragraph from the beginning of an entity's fiscal year of adoption to account for the release of the cumulative translation adjustment in the same manner for all disposition and deconsolidation events and step acquisitions within that fiscal year.
d. An entity shall provide the disclosures in paragraphs 250-10-50-1 through 50-3 in the period the entity adopts the pending content that links to this paragraph.

7. Amend paragraph 220-10-00-1, by adding the following item to the table, as follows:

220-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	**Action**	**Accounting Standards Update**	**Date**
220-10-45-16	Amended	2013-XX	02/XX/2013

8. Amend paragraph 805-10-00-1, by adding the following item to the table, as follows:

805-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	**Action**	**Accounting Standards Update**	**Date**
805-10-25-10	Amended	2013-XX	02/XX/2013

9. Amend paragraph 810-10-00-1, by adding the following items to the table, as follows:

810-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	**Action**	**Accounting Standards Update**	**Date**
810-10-40-4	Amended	2013-XX	02/XX/2013
810-10-40-4A	Added	2013-XX	02/XX/2013

10. Amend paragraph 830-30-00-1 as follows:

830-30-00-1 The following table identifies the changes made to this Subtopic. ~~No updates have been made to this subtopic.~~

Paragraph Number	**Action**	**Accounting Standards Update**	**Date**
830-30-40-1 through 40-3	Amended	2013-XX	02/XX/2013
830-30-40-1A	Added	2013-XX	02/XX/2013
830-30-65-1	Added	2013-XX	02/XX/2013

The amendments in this Update were adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Leslie F. Seidman, *Chairman*
Daryl E. Buck
Russell G. Golden
Thomas J. Linsmeier
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Task Force's considerations in reaching the conclusions in this Update. It includes the Board's basis for ratifying the Task Force conclusions when needed to supplement the Task Force's considerations. It also includes reasons for accepting certain approaches and rejecting others. Individual Task Force and Board members gave greater weight to some factors than to others.

Background Information

BC2. Section 810-10-40 requires deconsolidation of a subsidiary and derecognition of a group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) whenever the parent ceases to hold a controlling financial interest in the subsidiary or group of assets. However, differing views in practice exist about whether the related cumulative translation adjustment should be released into net income upon the sale or transfer of such a subsidiary or group of assets within a foreign entity because, comparatively, the guidance in Section 830-30-40 requires a sale or complete or substantially complete liquidation of an investment in a foreign entity in order for the cumulative translation adjustment to be released into net income. Additionally, there are differing views as to whether Section 810-10-40 or Section 830-30-40 applies to the sale or transfer of a controlling financial interest in a foreign entity if the parent retains an investment or if the parent's equity method investment that is a foreign entity is increased to a consolidated investment in a business combination achieved in stages (also called a step acquisition).

BC3. Specifically, while Update 2010-02 expanded the scope of Subtopic 810-10 to include the loss of a controlling financial interest in a group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights), it did not amend Subtopic 830-30. Accordingly, diversity in practice exists for sales of subsidiaries and groups of assets that are nonprofit activities or businesses within a foreign entity and sales and transfers of investments in a foreign entity. Some entities apply Subtopic 810-10 and release the cumulative translation adjustment into net income upon the loss of a controlling financial interest for both events within a foreign entity and events involving an investment in a foreign entity. Other entities apply the guidance in paragraph 830-30-40-1 and release the related cumulative translation adjustment into net income only if the sale or transfer represents the sale or complete or substantially complete liquidation of the foreign entity.

BC4. At the November 3, 2011 EITF meeting, the Task Force reached a consensus-for-exposure to apply the deconsolidation and derecognition guidance (Section 810-10-40), rather than the foreign currency guidance (Section 830-30-40), for releasing the cumulative translation adjustment when a parent ceases to have a controlling financial interest in either a subsidiary or a group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. The Task Force also reached a consensus-for-exposure that the amount of cumulative translation adjustment that entities should release into net income should be determined using systematic and rational approaches that reflect an asset group's relative portion of the total cumulative translation adjustment associated with the foreign entity. Such approaches include (a) a pro rata portion of the cumulative translation adjustment attributable to the nonprofit activity or business within the scope of paragraph 810-10-40-3A based on the relative proportion of the net assets of the foreign entity at the date of disposition and (b) the cumulative translation adjustment attributable to specific assets and liabilities of the nonprofit activity or business within the scope of paragraph 810-10-40-3A within a foreign entity. The Board issued a proposed Update on December 8, 2011, with a 60-day comment period.

BC5. At the March 15, 2012 EITF meeting, the Task Force considered the feedback received from the comment letters and requested that the FASB staff perform additional analysis before affirming its consensus-for-exposure as a final consensus. Specifically, the Task Force requested that the staff perform user and preparer outreach to better understand their views on this Issue, including operational complexities. Additionally, the staff was asked to evaluate certain questions that may arise if the cumulative translation adjustment is released in accordance with the deconsolidation and derecognition guidance in Section 810-10-40.

BC6. At the June 21, 2012 EITF meeting, the Task Force reached a revised consensus-for-exposure on the basis of the FASB staff's outreach that the cumulative translation adjustment should be released into net income in accordance with Subtopic 830-30. Therefore, upon the sale or transfer of a subsidiary or group of assets that is a nonprofit activity or a business (other than the sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity, the cumulative translation adjustment should only be released into net income if such sale or transfer results in the complete or substantially complete liquidation of the foreign entity. The Task Force indicated that the revised consensus-for-exposure addressed concerns about the ability of entities to apply a systematic and rational measurement approach to allocating the cumulative translation adjustment upon losing a controlling financial interest in a group of assets that is a nonprofit activity or a business within a foreign entity. Some Task Force members were concerned that stakeholders would interpret the measurement principle to require a specific identification approach, which would be an unreasonable and operationally challenging expectation to set. Those Task Force members also were concerned that allocation would be operationally challenging because the cumulative translation adjustment is recognized at a broader unit of account (foreign entity) but releasing it would be at a more specific unit of account. The revised consensus-for-exposure also reflected the Task Force's preference for the same approach to be applied to subsidiaries and groups of assets that are nonprofit activities or businesses within a foreign entity. Additionally, the revised consensus-for-exposure was consistent with the understanding that many users do not feel strongly about when entities release the cumulative translation adjustment into net income and do not incorporate cumulative translation adjustments into their trend analyses.

BC7. At the June 21, 2012 EITF meeting, the Task Force also discussed the release of the cumulative translation adjustment upon occurrence of certain events related to an investment in a foreign entity. The Task Force reached a tentative conclusion that the cumulative translation adjustment should not be released into net income in a step acquisition but requested that the FASB staff perform additional analysis before proceeding further with discussions.

BC8. At the September 11, 2012 EITF meeting, the Task Force discussed the FASB staff's outreach and analysis on events related to an investment in a foreign entity. The outreach with practitioners indicated that most entities release the cumulative translation adjustment into net income upon the loss of a controlling financial interest in an investment in a foreign entity (irrespective of the form of any retained ownership interest) and upon a step acquisition involving an investment in a foreign entity. The outreach also confirmed that, in practice, most entities release a pro rata portion of the cumulative translation adjustment upon a partial sale of an equity method investment that is a foreign entity in accordance with paragraph 830-30-40-2. The Task Force reached a consensus-for-exposure that the entire amount of the cumulative translation adjustment should be released into net income upon the loss of a controlling financial interest in a foreign entity. Some Task Force members expressed support for this position by noting that this treatment is consistent with the view that the cumulative translation adjustment is tied to the net investment in a foreign entity. Accordingly, when the net investment in a foreign entity is deconsolidated or derecognized, and a gain or loss is recognized, it should include the cumulative translation adjustment. Similarly, the Task Force reached a consensus-for-exposure that the sale of part of an equity method investment that is a foreign entity should result in a pro rata release of the cumulative translation adjustment. The Task Force concluded that this decision would be consistent with the consensus-for-exposure reached for the loss of a controlling financial interest. Additionally, the staff noted that, on the basis of outreach performed, entities generally indicated that the guidance in paragraph 830-30-40-2 is clear for partial sales of an equity method investment that is a foreign entity.

BC9. The Task Force also discussed the release of the cumulative translation adjustment in a step acquisition involving an investment in a foreign entity and reached a consensus-for-exposure that the cumulative translation adjustment should be released in such a transaction. The Task Force concluded that this would be consistent with the intent of the Board in paragraphs B384 and B389 of FASB Statement No. 141 (revised 2007), *Business Combinations*, for requiring the remeasurement of the original equity interest in a step acquisition. As such, the Task Force noted that the reference to remeasurement in Statement 141R is a reference to the derecognition of an original investment in the acquiree when it is exchanged for a controlling financial interest in all of the underlying assets and liabilities of that entity. Several Task Force members expressed disagreement with the remeasurement requirement of Statement 141R, stating that the cumulative translation adjustment should only be released when an entity loses exposure to a net investment in a foreign entity. To them, the cumulative translation adjustment should not be released into net income because purchase events do not result in derecognition or deconsolidation events for the investment in a foreign entity. However, those Task Force members acknowledged that the consensus-for-exposure is consistent with existing U.S. GAAP, which is outside the scope of this Issue. Accordingly, these Task Force members could agree with the consensus-for-exposure given the confines of the proposed Update. The Board issued a revised proposed Update on October 11, 2012, with a 60-day comment period.

BC10. At the January 17, 2013 EITF meeting, the Task Force considered the mixed feedback received from the nine comment letters on the revised proposed Update.

BC11. The Task Force discussed the merits of allowing a one-time policy election to apply either a Subtopic 830-30 approach or a Subtopic 810-10 approach to releasing the cumulative translation adjustment into net income. Some Task Force members noted that the benefit of a policy election is its acknowledgment (a) that a single approach to the release of cumulative translation adjustment would not provide for comparability of sales or transfers because disposal events by nature are not comparable and (b) that users generally do not have a preference for the approach taken to release cumulative translation adjustment into net income. However, other Task Force members noted that users are generally most interested in having information available to arrive at a recurring cash gain orloss number and that FASB Statement No. 52, *Foreign Currency Translation* (codified in Topic 830) does not and did not intend a policy election to be made for the release of cumulative translation adjustment into net income. The Task Force also discussed operational challenges of drafting an Update to reflect a policy election because of the difficulty in specifying the election alternatives.

BC12. The Task Force noted that a key difficulty in resolving this Issue is the disparate principles in the foreign currency guidance and the consolidations guidance. The former is a realization of a net investment model while the latter is a control (gaining or losing) model.

BC13. The Task Force noted that Topic 830 requires cumulative translation adjustment to be released into net income only upon events that generally cause a related gain or loss on the net investment to be recognized in net income. That is because the premise of Statement 52 (codified in Topic 830) is that the cumulative translation adjustment relates to an entity's investment in a foreign entity, as that term is defined in Statement 52. In Statement 52, the Board identified the cumulative translation adjustment release events to occur when the net investment in a foreign entity is realized through either (a) a sale or (b) complete or substantially complete liquidation of an investment in a foreign entity. The Board clarified in FASB Interpretation No. 37, *Accounting for Translation Adjustments upon Sale of Part of an Investment in a Foreign Entity*, that the reference to "sale" as a derecognition event for cumulative translation adjustment includes a parent's partial, as well as complete, disposal of its ownership interest in a foreign entity.

BC14. Some Task Force members noted that if the Task Force were to restrict the derecognition of translation gains or losses to events that result in a complete or substantially complete liquidation of the investment in the foreign entity, the cumulative translation adjustment would then be released only when a sale or transfer event essentially becomes the equivalent of a foreign currency *transaction* (that is, when the parent entity holds little to no retained investment in the foreign entity). Supporters of a substantial liquidation threshold generally believe that this treatment best aligns with how Subtopic 830-30 differentiates between translation gains or losses and transaction gains or losses. Subtopic 830-30 requires translation gains or losses to be reported outside net income in other comprehensive income as a cumulative translation adjustment but requires transaction gains or losses to be reported in net income because they are considered real economic gains and losses. Some Task Force members indicated that a substantial liquidation model to derecognize the cumulative translation adjustment would return the guidance to what it was before Interpretation 37's amendments. This, they note, could be beneficial because Interpretation 37's amendments to release a portion of the cumulative translation adjustment upon the sale of only *part* of an ownership interest in a foreign entity appear inconsistent with the realization of a net investment model of Statement 52.

BC15. Other Task Force members, however, said that the amendment in Interpretation 37 to allow the release into net income of a proportionate amount or all of the cumulative translation adjustment (depending on whether the foreign entity is an equity method investment or a consolidated investment, respectively) upon the sale of part of an investment in a foreign entity is consistent with the principle in Statement 52 to release the cumulative translation adjustment when a gain or loss on the net investment in a foreign entity is recognized in net income. These Task Force members also noted that Interpretation 37 is consistent with the premise that the cumulative translation adjustment relates to an entity's investment in a foreign entity. Specifically, Interpretation 37 does not support the release of any cumulative translation adjustment for sale or transfer events that (a) do not relate to an ownership interest in a foreign entity and (b) do not result in a sale or complete or substantially complete liquidation of an investment in the foreign entity. Therefore, the sale of a group of assets or a subsidiary that is within a foreign entity and that does not result in a complete or substantially complete liquidation of an investment in a foreign entity would not qualify for the release of any cumulative translation adjustment. These Task Force members note that limiting derecognition to complete or substantially complete liquidation events (that is, disallowing sales as a derecognition event), is a broader issue that would be more appropriately addressed by the Board.

BC16. The Task Force noted that in amendments to Topic 810 made by FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, the Board changed the events that cause a related gain or loss on a net investment to be recognized in net income by requiring recognition of a gain or loss in net income of any noncontrolling interest retained by a parent upon losing a controlling financial interest over a subsidiary. Previously, a gain or loss related to these events was recognized only for a controlling financial interest when sold. One Board member noted that Statement 160's derecognition guidance was not intended to govern the release of the cumulative translation adjustment relating to the parent's controlling financial interest or to any noncontrolling interest retained by the parent.

BC17. A Task Force member noted that in his view, the cumulative translation adjustment should not be released into net income upon a step acquisition because an entity's exposure risk to the foreign currency is increasing. Other Task Force members pointed to consistency with Subtopic 805-10's recognition guidance for step acquisitions, under which the original equity method investment is remeasured to fair value with any resulting gain or loss recognized in net income. Unless the related cumulative translation adjustment is correspondingly released, the measurement of the newly recorded consolidated investment would not reflect fair value, which is another requirement of Subtopic 805-10. Those Task Force members also noted that the original equity method investment could be viewed as being, effectively, substantially liquidated. However, they acknowledge that step acquisitions illustrate the conflict between the control principle in Subtopics 805-10 and 810-10 and the realization of a net investment principle in Subtopic 830-30.

BC18. A few Task Force members suggested that, based on feedback received on both of the consensuses-for-exposure, the definition of a foreign entity be clarified and that where the cumulative translation adjustment resides be reexamined or confirmed. However, they acknowledged that these subjects are beyond the scope of this Update.

BC19. Following extensive discussion, the Task Force affirmed the revised proposed amendments. The Task Force concluded that the amendments reach a compromise between the disparate principles in Subtopics 830-30 and 810-10 by (a) retaining the derecognition events in Section 830-30 for the cumulative translation adjustment and (b) accommodating the loss of control concept in Subtopic 810-10 by further clarifying that reference to “sale” as a derecognition event for the cumulative translation adjustment includes the loss of a controlling financial interest in a foreign entity.

Disclosures

BC20. The Task Force concluded that no incremental recurring disclosures should be required by this Update. The Task Force observed that Subtopics 830-30 and 810-10 have existing disclosure requirements that should be applied, if applicable.

Transition and Early Adoption

BC21. The Task Force reached a consensus that the amendments in this Update should be effective prospectively for public entities for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013, and for nonpublic entities for the first annual period beginning after December 15, 2014, and interim and annual periods thereafter. The Task Force concluded that the costs of a full retrospective application outweigh the benefits of providing the information to users of financial statements. Additionally, because the amendments address nonrecurring events, the Task Force was not as concerned about comparative financial statements.

BC22. The Task Force decided to permit early adoption of the amendments. Some Task Force members questioned permitting early adoption if comparative financial statements are not required to be adjusted because such an option potentially reduces comparability among entities. However, the majority of Task Force members concluded that early adoption should be permitted because there already is diversity among entities and early application of the amendments will result in more useful information.

BC23. The Task Force decided that nonpublic entities should have additional time to implement the amendments because of their learning cycle, their resource limitations, and the potential opportunity for them to learn from public entities about implementing the amended guidance.

Benefits and Costs

BC24. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Task Force's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC25. The Task Force concluded that the amendments in this Update will improve financial reporting by eliminating diversity in practice. Because the guidance will be applied prospectively, and no additional disclosures are required, the Task Force does not anticipate that entities will incur significant costs as a result of applying the amendments.

Amendments to the XBRL Taxonomy

The amendments to the FASB Accounting Standards Codification® in this Accounting Standards Update do not require changes to the U.S. GAAP Financial Reporting Taxonomy (UGT).

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FINANCIAL ACCOUNTING SERIES

Accounting Standards Update

No. 2013-XX
February 2013

Liabilities (Topic 405)

Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date

a consensus of the FASB Emerging Issues Task Force

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board
of the Financial Accounting Foundation

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Accounting Standards Update 2013-XX

Liabilities (Topic 405)

Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date

February 2013

CONTENTS

Summary

Why Is the FASB Issuing This Accounting Standards Update (Update)?

The objective of the amendments in this Update is to provide guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, except for obligations addressed within existing guidance in U.S. generally accepted accounting principles (GAAP). Examples of obligations within the scope of this Update include debt arrangements, other contractual obligations, and settled litigation and judicial rulings. U.S. GAAP does not include specific guidance on accounting for such obligations with joint and several liability, which has resulted in diversity in practice. Some entities record the entire amount under the joint and several liability arrangement on the basis of the concept of a liability and the guidance that must be met to extinguish a liability. Other entities record less than the total amount of the obligation, such as an amount allocated, an amount corresponding to the proceeds received, or the portion of the amount the entity agreed to pay among its co-obligors, on the basis of the guidance for contingent liabilities.

Who Is Affected by the Amendments in This Update?

The amendments in this Update apply to all entities, both public and nonpublic, that have obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date and for which no specific guidance exists.

What Are the Main Provisions?

The guidance in this Update requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, as the sum of the following:

a. The amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors
b. Any additional amount the reporting entity expects to pay on behalf of its co-obligors.

The guidance in this Update also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations.

How Do the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

Current U.S. GAAP does not include guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements included in the scope of this Update. Consequently, the guidance in this Update improves financial reporting for users of financial statements by increasing comparability among the financial statements of entities with obligations within the Update's scope. In addition, the guidance reduces complexity and cost for preparers of financial statements by providing a specific recognition and measurement model for those liabilities.

When Will the Amendments Be Effective?

The amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2014, and interim periods and annual periods thereafter.

The amendments in this Update should be applied retrospectively to all prior periods presented for those obligations resulting from joint and several liability arrangements within the Update's scope that exist at the beginning of an entity's fiscal year of adoption. An entity may elect to use hindsight for the comparative periods (if it changed its accounting as a result of adopting the amendments in this Update) and should disclose that fact. Early adoption is permitted.

How Do the Provisions Compare with International Financial Reporting Standards (IFRS)?

IFRS does not have specific guidance on recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements included in the scope of this Update. Consequently, the amendments do not eliminate any existing differences between U.S. GAAP and IFRSs.

International Accounting Standard (IAS) 37, *Provisions, Contingent Liabilities and Contingent Assets,* requires an entity to treat the part of a joint and several liability that is expected to be met by other parties as a contingent liability. The guidance in IAS 37 is applicable to contingent liabilities, which are not within the scope of this Update. However, the measurement approach in IAS 37 for joint and several liabilities is generally consistent with the measurement approach in this Update.

Amendments to the *FASB Accounting Standards Codification*®

Introduction

1. The Accounting Standards Codification is amended as described in paragraph 2. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~. **[For ease of readability, the newly added Subtopic is not underlined.]**

Amendments to Topic 405

2. Add Subtopic 405-40, with a link to transition paragraph 405-40-65-1, as follows:

Liabilities—Obligations Resulting from Joint and Several Liability Arrangements

Overview and Background

General

> Overall Guidance

405-40-05-1 This Subtopic addresses the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements.

Scope and Scope Exceptions

General

> Overall Guidance

405-40-15-1 The guidance in this Subtopic applies to obligations resulting from joint and several liability arrangements for which the total amount under the arrangement is fixed at the reporting date, except for obligations otherwise accounted for under the following Topics:

a. Asset Retirement and Environmental Obligations, see Topic 410
b. Contingencies, see Topic 450
c. Guarantees, see Topic 460
d. Compensation Retirement Benefits, see Topic 715
e. Income Taxes, see Topic 740.

For the total amount of an obligation under an arrangement to be considered fixed at the reporting date there can be no measurement uncertainty at the reporting date relating to the total amount of the obligation within the scope of this Subtopic. However, the total amount of the obligation may change subsequently because of factors that are unrelated to measurement uncertainty. For example, the amount may be fixed at the reporting date but change in future periods because an additional amount was borrowed under a line of credit for which an entity is jointly and severally liable or because the interest rate on a joint and several liability arrangement changed.

Recognition

General

405-40-25-1 An entity shall recognize obligations resulting from joint and several liability arrangements when the arrangement is included in the scope of this Subtopic. In some circumstances, the arrangement is included in the scope of this Subtopic at the inception of the arrangement (for example, a debt arrangement); in other circumstances, the arrangement is included in the scope of this Subtopic after the inception of the arrangement (for example, when the total amount of the obligation becomes fixed, consistent with paragraph 405-40-15-1).

405-40-25-2 The corresponding entry or entries shall depend on facts and circumstances of the obligation. Examples of corresponding entries include the following:

a. Cash for proceeds from a debt arrangement
b. An expense for a legal settlement
c. A receivable (that is assessed for impairment) for a contractual right
d. An equity transaction with an entity under common control.

Initial Measurement

General

405-40-30-1 Obligations resulting from joint and several liability arrangements included in the scope of this Subtopic initially shall be measured as the sum of the following:

a. The amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors

b. Any additional amount the reporting entity expects to pay on behalf of its co-obligors. If some amount within a range of the additional amount the reporting entity expects to pay is a better estimate than any other amount within the range, that amount shall be the additional amount included in the measurement of the obligation. If no amount within the range is a better estimate than any other amount, then the minimum amount in the range shall be the additional amount included in the measurement of the obligation.

405-40-30-2 The corresponding entry or entries shall depend on the facts and circumstances of the obligation.

Subsequent Measurement

General

405-40-35-1 Obligations resulting from joint and several liability arrangements included in the scope of this Subtopic subsequently shall be measured using the guidance in Section 405-40-30.

Disclosure

General

405-40-50-1 An entity shall disclose the following information about each obligation, or each group of similar obligations, resulting from joint and several liability arrangements included in the scope of this Subtopic:

a. The nature of the arrangement, including:
   1. How the liability arose
   2. The relationship with other co-obligors
   3. The terms and conditions of the arrangement
b. The total outstanding amount under the arrangement, which shall not be reduced by the effect of any amounts that may be recoverable from other entities
c. The carrying amount, if any, of an entity's liability and the carrying amount of a receivable recognized, if any
d. The nature of any recourse provisions that would enable recovery from other entities of the amounts paid, including any limitations on the amounts that might be recovered
e. In the period the liability is initially recognized and measured or in a period the measurement changes significantly:

1. The corresponding entry
2. Where the entry was recorded in the financial statements.

405-40-50-2 The disclosures required by this Section do not affect the related-party disclosure requirements in Topic 850. The disclosure requirements in this Section are incremental to those requirements.

Transition and Open Effective Date Information

General

> Transition Related to Accounting Standards Update No. 2013-XX, Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date

405-40-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2013-XX, *Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date:*

a. A pending content that links to this paragraph shall be effective as follows:
    1. For fiscal years, and interim periods within those years, beginning after December 15, 2013
    2. For **{add glossary link to 1st definition}nonpublic entities{add glossary link to 1st definition}**, for fiscal years ending after December 15, 2014, and interim and annual periods thereafter.
b. The pending content that links to this paragraph shall be applied retrospectively to all prior periods presented for those obligations resulting from joint and several liability arrangements within the scope of this Subtopic that exist at the beginning of an entity's fiscal year of adoption.
c. An entity may elect to use hindsight for the comparative periods presented in the initial year of adoption (if it changed its accounting as a result of adopting the amendments in this Subtopic and shall disclose that fact. The use of hindsight would allow an entity to recognize, measure, and disclose obligations resulting from joint and several liability arrangements within the scope of this Subtopic in comparative periods using information available at adoption rather than requiring an entity to make judgments about what information it had in each of the prior periods to measure the obligation.
d. Earlier application is permitted.
e. An entity shall disclose information in accordance with paragraphs 250-10-50-1 through 50-3 in the period the entity adopts the pending content that links to this paragraph.

Status

General

405-40-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
405-40-05-1	Added	2013-XX	02/XX/2013
405-40-15-1	Added	2013-XX	02/XX/2013
405-40-25-1	Added	2013-XX	02/XX/2013
405-40-25-2	Added	2013-XX	02/XX/2013
405-40-30-1	Added	2013-XX	02/XX/2013
405-40-30-2	Added	2013-XX	02/XX/2013
405-40-35-1	Added	2013-XX	02/XX/2013
405-40-50-1	Added	2013-XX	02/XX/2013
405-40-50-2	Added	2013-XX	02/XX/2013
405-40-65-1	Added	2013-XX	02/XX/2013

The amendments in this Update were adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Leslie F. Seidman, *Chairman*
Daryl E. Buck
Russell G. Golden
Thomas J. Linsmeier
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Task Force's considerations in reaching the conclusions in this Update. It includes the Board's basis for ratifying the Task Force conclusions when needed to supplement the Task Force's considerations. It also includes reasons for accepting certain approaches and rejecting others. Individual Task Force and Board members gave greater weight to some factors than to others.

Background Information

BC2. The purpose of this Update is to provide guidance for recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements within the scope of this Update. Examples of such obligations include debt arrangements, other contractual obligations, and settled litigation and judicial rulings. U.S. GAAP does not include specific guidance on accounting for obligations resulting from joint and several liability arrangements within the scope of this Update, which has resulted in diversity in practice. Some entities record the entire amount of the obligation subject to joint and several liability on the basis of the concept of a liability and the guidance in Subtopic 405-20, Liabilities—Extinguishments of Liabilities, that must be met to extinguish a liability. Other entities record less than the total amount of the obligation, such as an amount allocated, an amount corresponding to the proceeds received, or an amount equal to the portion of the amount the entity agreed to pay among its co-obligors on the basis of the guidance for contingent liabilities in Subtopic 450-20, Contingencies—Loss Contingencies, and Subtopic 410-30, Asset Retirement and Environmental Obligations—Environmental Obligations, under which an entity may record its estimated portion of the total obligation subject to joint and several liability.

BC3. At the June 21, 2012 EITF meeting, the Task Force reached a consensus-for-exposure that a reporting entity would measure the obligations resulting from joint and several liability arrangements included in the scope of this Update using the guidance in Subtopic 450-20. The Task Force decided to clarify in the consensus-for-exposure that an entity should apply the guarantee guidance in Topic 460, Guarantees, to joint and several liability arrangements if the entity's role is primarily that of a guarantor. In addition, the Task Force concluded that there is a presumption that the minimum measurement of the liability is the greater of (a) the portion of the amount that the entity agreed to pay among its co-obligors (for example, the amount received in some cases) and (b) the amount that the entity expects to pay (for example, if the entity expects to have to pay additional amounts on behalf of other joint obligors).

BC4. A proposed Accounting Standards Update was issued on July 23, 2012, with a comment period that ended on September 20, 2012. Eleven comment letters were received on the proposed Update.

General Considerations

BC5. At the January 17, 2013 EITF meeting, the Task Force considered the feedback received on the proposed Update for this Issue. A majority of the respondents supported the recognition, measurement, and disclosure requirements in the proposed Update. Based on the feedback received, the Task Force decided to affirm the proposed guidance, excluding the requirement to assess whether the primary role of the entity is that of a guarantor.

BC6. The Task Force decided that this Update should apply to obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of guidance is fixed at the reporting date. Liabilities subject to a measurement uncertainty are excluded from the scope and should continue to be accounted for under the guidance in Topic 450 or other U.S. GAAP. This Update includes the phrase *total amount under the arrangement is fixed at the reporting date* in the scope description to indicate that an obligation is within the scope of this Update if the total amount of the obligation is fixed at the balance sheet date even when the total amount under the arrangement may change subsequently because of factors that are unrelated to measurement uncertainty. For example, the amount may be fixed at the reporting date but change in future periods because an additional amount was borrowed under a line of credit for which an entity is jointly and severally liable or because the interest rate on a joint and several liability arrangement changed.

BC7. The Task Force concluded that the scope of this Update should apply to all joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, regardless of the relationship among parties involved in the arrangement. The Task Force concluded that there was not a basis to exclude joint and several liability arrangements involving unrelated parties from the scope of this Update and that, if those arrangements were excluded, unrelated parties would apply this guidance by analogy, since there is no specific U.S. GAAP for them to apply.

BC8. The Task Force considered whether an entity that is jointly and severally liable should apply the guidance in Topic 460. Under that guidance, an entity is required to recognize and measure the fair value of the stand-ready obligation as well as recognize and measure a loss contingency under Subtopic 450-20. Some Task Force members said that this approach may be appropriate because there are economic similarities between obligations that result from joint and several liability arrangements and those that are guarantees, and, therefore, the recognition and measurement approaches should be similar. Other Task Force members said that different recognition and measurement approaches were appropriate for obligations that result from joint and several liability arrangements and those that are guarantees because there are differences between the two types of obligations. One of the significant differences between a joint and several liability arrangement and a guarantee arrangement is that an entity is a primary obligor under a joint and several liability arrangement and is a secondary obligor under a guarantee arrangement. In addition, those Task Force members were concerned about the cost and complexity of measuring the fair value of the stand-ready obligation for joint and several liability arrangements. Some said that the costs and complexity of measuring the fair value of the stand-ready obligation could be greater for obligations that are the result of a joint and several liability arrangement than for those that are guarantees because often there is no explicit consideration exchanged between entities that are parties to a joint and several liability arrangement. Those Task Force members noted that entities under common control are excluded from the requirement to recognize and measure the fair value of the stand-ready obligation under Topic 460 because there were concerns about measuring the fair value of the stand-ready obligation when there often is no explicit consideration exchanged for a guarantee involving entities under common control. Because this difficulty often may exist for joint and several liability arrangements, the Task Force also concluded there was a basis for not requiring a stand-ready obligation in the measurement of the liability resulting from the joint and several liability arrangement unless the primary role of the reporting entity was that of a guarantor.

BC9. Under the amendments in the proposed Update, the recognition, measurement, and disclosure requirements would not include joint and several liability arrangements in which the primary role of a reporting entity in the arrangement is that of a guarantor. At the time the Task Force proposed those amendments, it had decided that if the primary role of the reporting entity was that of a guarantor, then even if the obligation legally was a joint and several liability, the accounting for that arrangement should be the same as for guarantees under Topic 460. The Task Force included one indicator in the proposed Update, which was that the reporting entity received explicit consideration for standing ready. Some respondents to the proposed Update said that it was unclear whether the Task Force intended for other joint and several liability arrangements (for which the reporting entity received no explicit consideration) to be accounted for under Topic 460, and, if so, what those other arrangements are. The Task Force considered those comments, but it was not able to identify additional indicators that could be applied broadly and consistently in practice. In addition, the Task Force observed that the accounting for many of those obligations would be similar to the guidance in this Update and Topic 460, because many of those arrangements are among entities under common control. Consequently, the Task Force decided to remove the requirement from this Update that joint and several liability arrangements in which the primary role of a reporting entity in the arrangement is that of a guarantor should be accounted for under Topic 460.

BC10. Another approach considered by the Task Force would have required an entity that is jointly and severally liable to recognize and measure the obligation as the total amount under the joint and several liability arrangement regardless of the amount an entity expected to pay to fulfill the obligation. Some Task Force members were concerned that this approach would not result in decision-useful information for users of financial statements because the amount may be inconsistent with expected cash outflows associated with the obligation.

BC11. In the proposed Update, the measurement guidance was linked to the guidance for loss contingencies in Subtopic 450-20. The Task Force decided that the guidance on accounting for obligations with joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date should be included in Subtopic 405-40, rather than linked to another Subtopic, because the Task Force thought it would be easier to apply the guidance in practice. In addition, the Task Force noted that the recognition criteria in Subtopic 450-20 are not relevant for the arrangements within the scope of this Update. The Task Force concluded that the initial and subsequent measurement should be the sum of:

a. The amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors

b. Any additional amount the reporting entity expects to pay on behalf of its co-obligors. If some amount within a range of the additional amount the reporting entity expects to pay is a better estimate than any other amount within the range, that amount should be the additional amount included in the measurement of the obligation. If no amount within the range is a better estimate than any other amount, then the minimum amount in the range should be the additional amount included in the measurement of the obligation.

BC12. The Task Force considered whether the amendments in this Update should include specific guidance about the corresponding entry or entries when recognizing and measuring a liability resulting from a joint and several liability arrangement. The Task Force concluded that the amendments should not prescribe a specific account or accounts for the corresponding entry or entries because the corresponding entry or entries will depend on the facts and circumstances of the arrangement and the Task Force did not think that guidance could be developed that would be specific enough to be useful to preparers of financial statements while being applicable in all circumstances. Examples of corresponding entries include, but are not limited to, cash for proceeds from a debt arrangement, an expense for a legal settlement, a receivable (that is assessed for impairment) for a contractual arrangement, and an equity transaction with an entity under common control. In instances in which a legal or contractual arrangement exists to recover amounts funded under a joint and several obligation from the co-obligors, the Task Force noted that a receivable could be recognized at the time the corresponding liability is established. That receivable would need to be assessed for impairment. When no legal or contractual arrangement exists to recover the funded amounts from the co-obligors, the Task Force noted that an entity should consider all relevant facts and circumstances to determine whether the gain contingencies guidance in Subtopic 450-30 or other guidance would apply in recognizing a receivable for potential recoveries.

BC13. The Task Force concluded that the disclosure requirements in the amendments in this Update would be beneficial to users of financial statements because of the inherent uncertainty associated with measuring obligations resulting from joint and several liability arrangements. Those disclosure requirements are consistent with the disclosure requirements for guarantees in Topic 460.

Transition, Early Adoption, and Effective Date

BC14. The Task Force decided on modified retrospective transition for the amendments in this Update to all prior periods presented. Task Force members concluded that the costs of a fully retrospective application would outweigh the benefits of providing the information on previously extinguished obligations resulting from joint and several liability arrangements to users of financial statements; therefore, an entity should not change its previous accounting for extinguished liabilities. For example, if an obligation existed at the earliest comparative period but did not exist at the beginning of the fiscal year of adoption (for example, because the obligation was extinguished), then an entity would not adjust its previous accounting for the obligation. The Task Force noted that obligations resulting from joint and several liability arrangements often are significant to an entity’s balance sheet and concluded that comparability of the same obligation between periods was important to users of financial statements.

BC15. The Task Force decided to allow an entity to elect to use hindsight in the comparative periods, which should allow an entity to recognize, measure, and disclose the obligation in comparative periods using information available at adoption rather than requiring the entity to make judgments about what information it had in each of the prior periods to measure the obligation. The Task Force also concluded that an entity whose accounting policy for obligations resulting from joint and several liability arrangements was the same as the recognition and measurement approach in this Update should not change its previous measurements of the obligation upon adoption of this Update.

BC16. The Task Force decided that early adoption of the amendments should be permitted to eliminate existing diversity as soon as is practicable.

BC17. The Task Force decided that nonpublic entities should have additional time to implement the Update because of to their learning cycle, resource limitations, and potential opportunity to learn from the implementation of the amended guidance by public entities.

Benefits and Costs

BC18. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC19. The Board does not anticipate that entities will incur significant costs as a result of the amendments in this Update. The Board expects that those entities that currently do not apply the recognition and measurement approach in this Update would have sufficient information to meet the recognition, measurement, and disclosure requirements. In considering which recognition and measurement approach to select for obligations in the scope of this Update, the Task Force discussed the relative costs of the approaches. The Task Force generally thought the approach requiring an entity to account for an obligation resulting from a joint and several liability arrangement as a guarantee following Topic 460 was the most costly approach; this was one of the reasons it did not select that approach.

BC20. The Board decided that users will benefit from the amendments because the amendments will improve comparability of financial statements of entities that have obligations resulting from joint and several liability arrangements that are within the scope of this Update. In addition, the disclosure requirements should provide users of financial statements with transparent information about the risks associated with obligations that result from a joint and several liability arrangement.

Amendments to the XBRL Taxonomy

The amendments to the FASB Accounting Standards Codification® in this Accounting Standards Update require changes to the U.S. GAAP Financial Reporting Taxonomy (UGT) as described in the table below. Those changes will be incorporated into the proposed 2014 UGT, available for public comment at www.FASB.org, and finalized as part of the annual release process starting in September 2013.

Element Name	Standard Label	Documentation
AccountingStandardsUpdate2013XxMember	Accounting Standards Update 2013-XX [Member]	Accounting Standards Update 2013-XX Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date
ObligationsResultingFromJointAndSeveralLiabilityArrangementsAbstract	Obligations Resulting from Joint and Several Liability Arrangements [Abstract]	
ObligationsResultingFromJointAndSeveralLiabilityArrangementsTextBlock	Obligations Resulting from Joint and Several Liability Arrangements [TextBlock]	The entire disclosure for obligation or each group of similar obligations resulting from joint and several liability arrangements, including but not limited to, debt arrangements, settled litigation, and judicial rulings.
ObligationsResultingFromJointAndSeveralLiabilityArrangementsTableTextBlock	Obligations Resulting from Joint and Several Liability Arrangements [Table Text Block]	Tabular disclosure of obligation or each group of similar obligations resulting from joint and several liability arrangements, including but not limited to, debt arrangements, settled litigation, and judicial rulings.

Element Name	Standard Label	Documentation
ObligationsResultingFromJointAndSeveralLiabilityArrangementsTable	Obligations Resulting from Joint and Several Liability Arrangements [Table]	Disclosure of obligation or each group of similar obligations resulting from joint and several liability arrangements, including, but not limited to, debt arrangements, settled litigation, and judicial rulings.
SettledLitigationMember	Settled Litigation [Member]	Agreement reached between parties in a pending litigation that resolves the dispute to their mutual satisfaction and occurs without judicial intervention, supervision, or approval.
JudicialRulingMember	Judicial Ruling [Member]	Litigation outcome that occurs as a result of judicial intervention, supervision, or approval.
ObligationResultingFromJointAndSeveralLiabilityArrangementsLineItems	Obligation Resulting from Joint and Several Liability Arrangements, [LineItems]	
ObligationResultingFromJointAndSeveralLiabilityArrangementsDescription	Obligation Resulting from Joint And Several Liability Arrangements, Description	Description of the nature of the arrangement, including, but not limited to, how the liability arose, the relationship with other co-obligors, and the terms and conditions of the arrangement.
ObligationResultingFromJointAndSeveralLiabilityArrangementsAmountOutstanding	Obligation Resulting from Joint and Several Liability Arrangements, Amount Outstanding	Amount outstanding, before the effects of any recovery from other entities, under the joint and several liability arrangement.
ObligationResultingFromJointAndSeveralLiabilityArrangementsAmountRecognized	Obligation Resulting from Joint and Several Liability Arrangements, Amount Recognized	Amount of joint and several liability recognized in the financial statements.

Element Name	Standard Label	Documentation
ObligationResultingFromJointAndSeveralLiabilityArrangementsRecourseProvisionDescription	Obligation Resulting from Joint And Several Liability Arrangements, Recourse Provision, Description	Description of the nature of a recourse provision that would enable recovery from other entities of the amounts paid including, but not limited to, any limitations on recoverable amounts.
ObligationResultingFromJointAndSeveralLiabilityArrangementsAmountReceivable	Obligation Resulting from Joint And Several Liability Arrangements, Amount Receivable	Amount of receivable from other entities recognized in the financial statements resulting from the joint and several liability arrangement.
ObligationResultingFromJointAndSeveralLiabilityArrangementsCorrespondingEntryAmount	Obligation Resulting from Joint and Several Liability Arrangements, Corresponding Entry, Amount	Amount of corresponding entry related to the joint and several liability arrangement.

FINANCIAL ACCOUNTING SERIES

EXPOSURE DRAFT

Proposed Accounting Standards Update

Issued: February XX, 2013
Comments Due: April XX, 2013

Derivatives and Hedging (Topic 815)

Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes

a consensus of the FASB Emerging Issues Task Force

This Exposure Draft of a proposed Accounting Standards Update of Topic 815 is issued by the Board for public comment. Written comments should be addressed to:

Technical Director
File Reference No. EITF-13A

Financial Accounting Standards Board
of the Financial Accounting Foundation

The *FASB Accounting Standards Codification*® is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective.

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

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- Emailing a written letter to director@fasb.org, File Reference No. EITF-13A
- Sending written comments to "Technical Director, File Reference No. EITF-13A, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

Do not send responses by fax.

All comments received are part of the FASB's public file. The FASB will make all comments publicly available by posting them to the online public reference room portion of its website.

An electronic copy of this Exposure Draft is available on the FASB's website.

Financial Accounting Standards Board
of the Financial Accounting Foundation
401 Merritt 7, PO Box 5116, Norwalk, Connecticut 06856-5116

Proposed Accounting Standards Update

Derivatives and Hedging (Topic 815)

Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes

February XX, 2013

Comment Deadline: April XX, 2013

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Summary and Questions for Respondents

Why Is the FASB Issuing This Proposed Accounting Standards Update (Update)?

Topic 815, Derivatives and Hedging, provides guidance on the risks that are permitted to be hedged in a fair value or cash flow hedge. Among those risks for financial assets and financial liabilities is the risk of changes in a hedged item's fair value or a hedged transaction's cash flows attributable to changes in the designated benchmark interest rate (referred to as interest rate risk). In the United States, currently only the interest rates on direct Treasury obligations of the U.S. government (UST) and, for practical reasons, the London Interbank Offered Rate (LIBOR) swap rate are considered benchmark interest rates.

As a result of the financial crisis in 2008, the exposure to and the demand for hedging the Fed Funds rate have increased significantly. That demand has been driven by an increased focus by banks on their sources of funding (including an increased focus on overnight interbank borrowings of surplus balances held at the Federal Reserve), the greater (and sometimes volatile) spread between LIBOR and OIS ("Overnight Index Swap Rate" or also referred to as the "Fed Funds Effective Swap Rate"), and new regulatory measures to curb systemic risks (such as increased collateralization of derivatives). Some believe that the increased importance of OIS justifies the inclusion of that rate as a benchmark interest rate. The objective of this proposed Update is to address whether the Fed Funds Effective Swap Rate (OIS) should be included as a U.S. benchmark interest rate for hedge accounting purposes, in addition to UST and LIBOR.

Who Would Be Affected by the Amendments in This Proposed Update?

The proposed amendments would affect all entities, both public and nonpublic, that elect to apply hedge accounting of the benchmark interest rate under Topic 815.

What Are the Main Provisions?

The amendments in this proposed Update would permit the Fed Funds Effective Swap Rate (OIS) to be included as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to UST and LIBOR. No additional disclosures would be required.

How Would the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Would They Be an Improvement?

In the United States, currently only UST and, for practical reasons, the LIBOR swap rate are considered benchmark interest rates under Topic 815. Including the Fed Funds Effective Swap Rate (OIS) as an acceptable U.S. benchmark interest rate in addition to UST and LIBOR would provide risk managers with a more comprehensive spectrum of interest rate resets to utilize as the designated benchmark interest rate risk component under the hedge accounting guidance in Topic 815.

When Would the Amendments Be Effective?

Although the Task Force has not decided on an effective date, which will be determined after deliberating stakeholder feedback on the proposed Update, the Task Force indicated that it will consider whether the effective date should coincide with the issuance date of a final Update. The amendments would be applied on a prospective basis for qualifying new or redesignated hedging relationships entered into on or after the date of adoption.

How Do the Proposed Provisions Compare with International Financial Reporting Standards (IFRS)?

Under IFRS, a hedge of interest rate risk is not explicitly limited to specified benchmark interest rates but, rather, is described in terms of a rate that is both a separately identifiable component of a financial instrument and reliably measurable.

Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

Question 1: Do you agree that the Fed Funds Effective Swap Rate (OIS) should be included as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to UST and LIBOR? Why or why not?

Question 2: Do you agree that no additional disclosures should be required? If not, please explain why.

Question 3: Do you agree that the proposed amendments only should be applied on a prospective basis for qualifying new or redesignated hedging relationships? If not, please explain why.

Question 4: Should the effective date of the amendments in the proposed Update coincide with the issuance date of a final Update? If not, when should the amendments be effective? Please explain why.

Question 5: If the effective date of the amendments in the proposed Update does not coincide with the issuance date of a final Update, should early adoption be permitted? If not, please explain why.

Amendments to the *FASB Accounting Standards Codification*®

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–4. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following or other relevant paragraphs. Terms from the Master Glossary are in **bold** type. Added text is <u>underlined</u>, and deleted text is ~~struck out~~.

Amendments to Master Glossary

2. Add the following new term *Fed Funds Effective Swap Rate (or Overnight Index Swap Rate)* to the Master Glossary, with a link to transition paragraph 815-10-65-6, as follows: **[Note: The definitions of Benchmark Interest Rate and London Interbank Offered Rate Swap Rate are shown for convenience.]**

<u>**Fed Funds Effective Swap Rate** (or Overnight Index Swap Rate)</u>

<u>The fixed rate on a U.S. dollar, constant-notional interest rate swap that has its variable-rate leg referenced to the Fed Funds effective rate with no additional spread over the Fed Funds effective rate on that variable-rate leg. That fixed rate is the derived rate that would result in the swap having a zero fair value at inception because the present value of fixed cash flows, based on that rate, equate to the present value of the variable cash flows.</u>

Benchmark Interest Rate

A widely recognized and quoted rate in an active financial market that is broadly indicative of the overall level of interest rates attributable to high-credit-quality obligors in that market. It is a rate that is widely used in a given financial market as an underlying basis for determining the interest rates of individual financial instruments and commonly referenced in interest-rate-related transactions. In theory, the benchmark interest rate should be a risk-free rate (that is, has no risk of default). In some markets, government borrowing rates may serve as a benchmark. In other markets, the benchmark interest rate may be an interbank offered rate.

London Interbank Offered Rate Swap Rate

The fixed rate on a single-currency, constant-notional interest rate swap that has its variable-rate leg referenced to the London Interbank Offered Rate (LIBOR) with no additional spread over LIBOR on that variable-rate leg. That fixed rate is the derived rate that would result in the swap having a zero fair value at inception because the present value of fixed cash flows, based on that rate, equate to the present value of the variable cash flows.

Amendments to Subtopic 815-20

3. Amend paragraph 815-20-25-6A, with a link to transition paragraph 815-10-65-6, as follows:

Derivatives and Hedging—Hedging—General

Recognition

> > > Hedged Items Involving Interest Rate Risk

815-20-25-6 Hedges involving the benchmark interest rate are addressed in paragraph 815-20-25-12(f) (for fair value hedges) and paragraph 815-20-25-15(j) (for cash flow hedges). The **benchmark interest rate** being hedged in a hedge of **interest rate risk** shall be specifically identified as part of the designation and documentation at the inception of the hedging relationship. Ordinarily, an entity shall designate the same benchmark interest rate as the risk being hedged for similar hedges, consistent with paragraphs 815-20-25-80 through 25-81. The use of different benchmark interest rates for similar hedges shall be rare and shall be justified. An entity shall not simply designate prepayment risk as the risk being hedged for a financial asset. However, it can designate the option component of a **prepayable** instrument as the hedged item in a fair value hedge of the entity's exposure to changes in the overall fair value of that prepayment option, perhaps thereby achieving the objective of its desire to hedge prepayment risk. The effect of an **embedded derivative** of the same risk class shall be considered in designating a hedge of an individual risk. For example, the effect of an embedded prepayment option shall be considered in designating a hedge of interest rate risk.

> > > > Benchmark Interest Rate

815-20-25-6A In the United States, currently only the interest rates on direct Treasury obligations of the U.S. government and, for practical reasons, the London Interbank Offered Rate (LIBOR) swap rate <u>and the **Fed Funds Effective Swap Rate** (also referred to as the Overnight Index Swap Rate)</u> are considered to be benchmark interest rates. In each financial market, <u>generally</u> only the one or two most widely used and quoted rates that meet these criteria may be considered benchmark interest rates. The ~~Fed Funds rate, the~~ Prime rate, the

Federal National Mortgage Association (FNMA or Fannie Mae) Par Mortgage rate, and the Securities Industry and Financial Markets Association Municipal Swap Index (formerly called the Bond Market Association index) shall not be used as the benchmark interest rate in the United States.

4. Add paragraph 815-10-65-6 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2013-XX, *Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes*

815-10-65-6 The following represents the transition and effective date information related to Accounting Standards Update No. 2013-XX, *Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes:*

a. The pending content that links to this paragraph shall be effective for fiscal years and interim periods beginning on or after [date to be inserted after exposure].

b. The pending content that links to this paragraph shall be applied prospectively for qualifying new or redesignated hedging relationships entered into on or after the date of adoption.

The amendments in this proposed Update were approved for publication by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Leslie F. Seidman, *Chairman*
Daryl E. Buck
Russell G. Golden
Thomas J. Linsmeier
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Task Force's considerations in reaching the conclusions in this proposed Update. It includes the Board's basis for ratifying the Task Force conclusions when needed to supplement the Task Force's considerations. It also includes reasons for accepting certain approaches and rejecting others. Individual Task Force and Board members gave greater weight to some factors than to others.

Background Information and Basis for conclusion

BC2. Topic 815 provides that among the risks permitted to be hedged for financial assets and financial liabilities is the risk of changes in a hedged item's fair value or a hedged transaction's cash flows attributable to changes in the designated benchmark interest rate (referred to as interest rate risk).

BC3. For simplicity, the stated interest rate in a financial asset or liability can be characterized as containing two components, a risk-free rate and a credit spread. In permitting the hedge of the benchmark interest rate risk in Topic 815, the Board was providing a practical means to designate the risk of changes in the hedged item attributable to changes in the risk-free component of the interest rate (that is, benchmark interest rate risk, which, in theory, is the risk-free component) in isolation, without requiring that an entity also hedge changes in the spread (which is deemed to reflect credit risk) above the benchmark interest component. In the United States, only the interest rates on direct Treasury obligations of the U.S. government (UST) and, for practical reasons, the London Interbank Offered Rate (LIBOR) swap rate are currently considered benchmark interest rates.

BC4. During its deliberations at the time of issuing the derivatives and hedging guidance, the Board considered whether other rates in the U.S. financial markets, such as the Fed Funds rate, should be included in the definition of benchmark interest rate. At the time, the Board rejected the Fed Funds rate as a benchmark rate in the United States and decided that allowing more than two benchmark rates (that is, UST and LIBOR) to define interest rate risk was unnecessary and would make the resulting financial statements more difficult to understand. Therefore, currently other such indexes may not be used as the benchmark interest rate in the U.S.

BC5. The Fed Funds rate is the interest rate at which depository institutions (for example, banks) actively trade balances held at the Federal Reserve with each other, usually overnight. Institutions with surplus balances in their accounts lend those balances to institutions in need of larger balances. The weighted average of this rate across all such transactions on any given day is the daily Fed Funds effective rate. The related Fed Funds Effective Swap Rate (which represents the Overnight Index Swap Rate or OIS in the United States) is the fixed rate swapped in exchange for a floating overnight rate, which is the Fed Funds effective rate. Thus, in the United States, the relationship between the Fed Funds effective rate and the Fed Funds Effective Swap Rate (OIS) is the same as the relationship between LIBOR and the London Interbank Offered Rate Swap Rate (as defined in the Master Glossary).

BC6. As a result of the financial crisis in 2008, the exposure to and the demand for hedging the Fed Funds rate have increased significantly. That demand has been driven by an increased focus by banks on their sources of funding (including an increased focus on overnight interbank borrowings of surplus balances held at the Federal Reserve), the greater (and sometimes volatile) spread between LIBOR and OIS, and new regulatory measures to curb systemic risks such as U.S. legislation that requires greater clearing of derivatives through exchanges or clearinghouses (which must be collateralized).

BC7. The increased prevalence of OIS in the marketplace can also be seen in derivatives valuation, where practice is evolving such that some believe that the appropriate discount rate to use in the valuation of collateralized derivatives should be based on OIS because that rate reflects the lower cost of financing a collateralized instrument. This has caused derivative counterparties to be more exposed to overnight rates even on derivatives whose cash flows are based on LIBOR resets and has resulted in incremental ineffectiveness in certain hedging relationships. However, the Task Force understands that the accounting guidance that currently prohibits OIS from being a benchmark interest rate is inhibiting entities that desire to utilize more OIS-based derivative products for risk management purposes.

BC8. The Task Force believes that at the time of issuing the derivatives and hedging guidance, the Board intended to incorporate some flexibility into the guidance to allow addition or removal of benchmark interest rates if circumstances changed. When the Board decided to focus on UST and LIBOR as the only acceptable benchmark interest rates during its deliberations at the time of issuing the derivatives and hedging guidance, the use of OIS-based transactions was not as prevalent as it is today. However, because the exposure to and importance of OIS have increased significantly, the Task Force determined that OIS should be an acceptable U.S. benchmark interest rate for hedge accounting purposes and that OIS meets the criteria to be a benchmark rate. OIS is indicative of high-quality borrowing rates and the extent of the credit risk associated with OIS rates is low because OIS is derived from an overnight transfer of funds rate, which inherently limits credit risk exposure. Furthermore, OIS is evolving as a widely recognized and quoted rate that is broadly indicative of the overall level of interest rates attributable to high-credit-quality obligors in the U.S. market. It is a rate that is becoming more widely used in the U.S. financial market as an underlying basis for determining the interest rates of certain individual financial instruments, including collateralized derivatives, and the underlying Fed Funds rate is commonly referenced in interest-rate-related transactions being the rate at which depository institutions (for example, banks) actively trade balances held at the Federal Reserve with each other.

BC9. The Task Force does not believe that additional recurring disclosures should be required as a result of the proposed guidance. Topic 815 requires extensive quantitative and qualitative disclosures about derivatives and hedging activities primarily based on underlying risk and accounting designation; however, it does not require that an entity specifically disclose the actual interest rate benchmark (for example, UST or LIBOR) that is hedged. The Task Force does not believe that it is necessary to revisit the Board's previous conclusions as to the granularity of disclosures about derivatives and hedging activities.

Transition

BC10. To qualify for hedge accounting, which is optional, Topic 815 requires formal designation and documentation of the hedging relationship before hedge accounting may be applied. Because retrospective application would be contrary to the contemporaneous hedge documentation requirements, the Task Force decided that the proposed guidance can only be applied prospectively for qualifying new or redesignated hedging relationships entered into on or after the date of adoption. Considering the exposure to and the increased importance of OIS, the Task Force indicated that it will consider during redeliberations whether the effective date should coincide with the issuance date of a final Update, that is, whether the guidance should become effective immediately upon issuance.

BC11. Paragraph 815-20-25-6 provides that, ordinarily, an entity shall designate the same benchmark interest rate as the risk being hedged for similar hedges and that the use of different benchmark interest rates for similar hedges shall be rare and shall be justified. The Task Force clarified that, regardless of existing hedging relationships, the inclusion of a new rate as a benchmark interest rate would justify an entity’s election to apply OIS-based benchmark interest rate hedge accounting for qualifying new or redesignated hedging relationships entered into on or after the date of adoption.

Benefits and Costs

BC12. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Task Force's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC13. The Task Force does not anticipate that entities will incur significant costs as a result of the amendments in this proposed Update. The proposed amendments would provide for a more comprehensive spectrum of interest rate resets to utilize as the designated benchmark interest rate risk component under the hedge accounting guidance in Topic 815.

Proposed Amendments to the XBRL Taxonomy

The provisions of this Exposure Draft, if finalized as proposed, would require changes to the U.S. GAAP Financial Reporting Taxonomy (UGT) as indicated in the following table. We welcome comment on these proposed changes to the UGT at xbrled@fasb.org. After the FASB has completed its deliberations and issued a final Accounting Standards Update, proposed amendments to the UGT will be made available for public comment at www.FASB.org and finalized as part of the annual release process.

Element Name	Standard Label	Documentation
FederalFundsEffectiveSwapRateMember	Federal Funds Effective Swap Rate [Member]	Fixed rate on a U.S. dollar, constant-notional interest rate swap that has its variable-rate leg referenced to the Fed Funds effective rate with no additional spread over the Fed Funds effective rate on that variable-rate leg. Also referred to as Overnight Index Swap Rate.

FINANCIAL ACCOUNTING SERIES

EXPOSURE DRAFT

Proposed Accounting Standards Update

Issued: February XX, 2013
Comments Due: April XX, 2013

Income Taxes (Topic 740)

Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward or Tax Credit Carryforward Exists

a consensus of the FASB Emerging Issues Task Force

This Exposure Draft of a proposed Accounting Standards Update of Topic 740 is issued by the Board for public comment. Comments can be provided using the electronic feedback form available on the FASB website. Written comments should be addressed to:

Technical Director
File Reference No. EITF-13C

Financial Accounting Standards Board
of the Financial Accounting Foundation

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Proposed Accounting Standards Update

Income Taxes (Topic 740)

Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward or Tax Credit Carryforward Exists

February XX, 2013

Comment Deadline: April XX, 2013

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Summary and Questions for Respondents

Why Is the FASB Issuing This Proposed Accounting Standards Update (Update)?

Topic 740, Income Taxes, does not include explicit guidance on the presentation in the statement of financial position of an unrecognized tax benefit when a net operating loss carryforward or a tax credit carryfoward exists. There is diversity in practice in the presentation of unrecognized tax benefits in those instances. Some entities present unrecognized tax benefits as a liability unless the unrecognized tax benefit is directly associated with a tax position taken in a tax year that results in, or that resulted in, the recognition of a net operating loss carryforward for that year and the net operating loss carryforward has not been utilized. Other entities present unrecognized tax benefits as a reduction of a deferred tax asset for a net operating loss carryforward or tax credit carryforward. The objective of the amendments in this proposed Update is to eliminate that diversity in practice.

Who Would Be Affected by the Amendments in This Proposed Update?

This proposed Update applies to all entities that have unrecognized tax benefits when a net operating loss carryforward or a tax credit carryforward exists.

What Are the Main Provisions?

Under the proposed amendments, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, would be presented in the statement of financial position as a reduction to a deferred tax asset for a net operating loss carryforward or a tax credit carryforward, except as follows. To the extent that a net operating loss carryforward or tax credit carryforward at the reporting date is not available under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, the unrecognized tax benefit would be presented in the statement of financial position as a liability.

No new recurring disclosures would be required.

How Would the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Would They Be an Improvement?

Current U.S. GAAP does not include explicit guidance on the presentation in the statement of financial position of an unrecognized tax benefit when a net operating loss carryforward or a tax credit carryfoward exists. The amendments in this proposed Update would be an improvement to current U.S. GAAP because they are expected to reduce diversity in practice by providing guidance on the presentation of unrecognized tax benefits and they will better reflect an entity's ability to settle any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards or tax credit carryforwards exist.

When Would the Amendments Be Effective?

The amendments in the proposed Update would be applied retrospectively. Early adoption would be permitted. The effective date will be determined after the Task Force considers stakeholder feedback on the proposed Update.

How Do the Proposed Provisions Compare with International Financial Reporting Standards (IFRS)?

IFRS does not include explicit guidance on the presentation of unrecognized tax benefits.

Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

Question 1: Do you agree with the proposed approach for the presentation in the statement of financial position of unrecognized tax benefits when net operating loss carryforwards or tax credit carryforwards exist? If not, what approach do you prefer and why?

Question 2: Do you agree that no new recurring disclosures about the presentation of unrecognized tax benefits should be required? If not, what disclosures would be appropriate?

Question 3: Do you agree that the proposed Update should be adopted retrospectively? If not, why not?

Question 4: For preparers, how much time is necessary to implement the proposed Update? Should the effective date for public and nonpublic entities be the same? If not, why not?

Amendments to the *FASB Accounting Standards Codification*®

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–4. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Amendments to Subtopic 740-10

2. Add paragraph 740-10-45-10A and amend paragraphs 740-10-45-11 and 740-10-45-13, with a link to transition paragraph 740-10-65-3, as follows:

Income Taxes—Overall

Other Presentation Matters

> Statement of Financial Position Classification of Income Tax Accounts

> > Tax Accounts, Other Than Deferred

>>> Unrecognized Tax Benefits

740-10-45-10A An unrecognized tax benefit, or a portion of an unrecognized tax benefit, shall be presented in the statement of financial position as a reduction to a deferred tax asset for a net operating loss carryforward or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward or tax credit carryforward at the reporting date is not available under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, the unrecognized tax benefit shall be presented in the statement of financial position as a liability.

740-10-45-11 An entity that presents a classified statement of financial position shall classify a liability associated with an **unrecognized tax benefit** as a current liability ~~(or the amount of a net operating loss carryforward or amount refundable is reduced)~~ to the extent the entity anticipates payment (or receipt) of cash within one year or the operating cycle, if longer. This~~The~~ liability for unrecognized tax benefits (or reduction in amounts refundable) shall not be combined with deferred tax liabilities or assets.

740-10-45-12 A liability recognized for an unrecognized tax benefit shall not be classified as a deferred tax liability unless it arises from a **taxable temporary difference**. Paragraph 740-10-25-17 explains how the recognition and measurement of a **tax position** may affect the calculation of a temporary difference.

> > > Offsetting

740-10-45-13 The offset of cash or other assets against the tax liability or other amounts owing to governmental bodies is not acceptable except as noted in ~~paragraph~~paragraphs 210-20-45-6 and 740-10-45-10A.

Amendments to Subtopic 210-20

3. Amend paragraph 210-20-15-3 and 210-20-60-3, with a link to transition paragraph 740-10-65-3, as follows:

Balance Sheet—Offsetting

Scope and Scope Exceptions

> Other Considerations

210-20-15-3 The general principle of a **right of setoff** involves only two parties, and exceptions to that general principle shall be limited to practices specifically permitted by the Subtopics listed in this paragraph. Various accounting Subtopics specify accounting treatments in circumstances that result in offsetting or in a presentation in a statement of financial position that is similar to the effect of offsetting. The guidance in this Subtopic does not modify the accounting treatment in the particular circumstances prescribed by any of the following Subtopics:

a. Paragraphs 840-30-35-32 through 35-52 (leveraged leases)

b. Subtopic 715-30 (accounting for pension plan assets and liabilities)

c. Subtopic 715-60 (accounting for plan assets and liabilities)

d. Subtopic ~~740-30~~740-10 (net tax asset or liability amounts reported)

dd. Paragraphs 815-10-45-1 through 45-7 (derivative instruments with the right to reclaim cash collateral or the obligation to return cash collateral)

e. Subtopics 940-320 (trade date accounting for trading portfolio positions) and 910-405 (advances received on construction contracts)

f. Paragraph 942-305-45-1 (reciprocal balances with other banks).

Relationships

> Income Taxes

210-20-60-3 For guidance on amounts reported for net tax assets or liabilities, see Subtopic 740-10~~740-30~~.

4. Add paragraph 740-10-65-3 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2013-XX, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward or Tax Credit Carryforward Exists*

740-10-65-3 The following represents the transition and effective date information related to Accounting Standards Update No. 2013-XX, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward or Tax Credit Carryforward Exists:*

a. The pending content that links to this paragraph shall be effective for fiscal years and interim periods within those years, beginning after [date to be inserted after exposure]. Early adoption is permitted.

b, The pending content that links to this paragraph shall be applied retrospectively to all prior periods presented.

c. An entity shall provide the disclosures in paragraphs 250-10-50-1 through 50-3 in the period the entity adopts the pending content that links to this paragraph.

The amendments in this proposed Update were approved for publication by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Leslie F. Seidman, *Chairman*
Daryl E. Buck
Russell G. Golden
Thomas J. Linsmeier
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Task Force's considerations in reaching the conclusions in this proposed Update. It includes the Board's basis for ratifying the Task Force conclusions when needed to supplement the Task Force's considerations. It also includes reasons for accepting certain approaches and rejecting others. Individual Task Force and Board members gave greater weight to some factors than to others.

Background Information

BC2. Topic 740 does not include explicit guidance on the presentation in the statement of financial position of an unrecognized tax benefit when a net operating loss carryforward or a tax credit carryfoward exists. Some entities present unrecognized tax benefits as a liability unless the unrecognized tax benefit is directly associated with a tax position taken in a tax year that results in, or that resulted in, the recognition of a net operating loss carryforward for that year and the net operating loss carryforward has not been utilized. Other entities present unrecognized tax benefits as a reduction of a deferred tax asset for a net operating loss carryforward or tax credit carryforward.

General Considerations

BC3. The Task Force considered three approaches for the presentation in the statement of financial position of an unrecognized tax benefit when a net operating loss carryforward or tax credit carryforward exists. Two of the approaches, which are described in paragraph BC2, are the accounting policies followed by most entities. The third approach was to allow an entity to make an accounting policy election to apply one of the other two approaches to all unrecognized tax benefits. The Task Force rejected that approach, however, because it would not resolve the diversity in practice in the presentation of unrecognized tax benefits.

BC4. The Task Force concluded that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the statement of financial position as a reduction to a deferred tax asset for a net operating loss carryforward or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward or tax credit carryforward at the reporting date is not available under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, the unrecognized tax benefit would be presented in the statement of financial position as a liability.

BC5. Some Task Force members selected this approach because, in their view, an entity's tax provision should be prepared as if the uncertain tax position was not claimed on the entity's tax return. If an uncertain tax position was settled with the taxing authority on the basis recognized and measured in the financial statements, then the resolution of the position effectively amounts to additional taxable income or income tax. If under the tax law for the applicable jurisdiction, the net operating loss carryforward or tax credit carryforward would be applied to the additional liability that would arise in the event that the uncertain tax position is not sustained and the settlement related to the uncertain tax position will not result in a payment of taxes, but instead would reduce the net operating loss carryforward or tax credit carryforward, then the deferred tax asset presented in the statement of financial position would be reduced for the unrecognized tax benefit accordingly.

BC6. Some Task Force members believe that the proposed presentation is consistent with the offsetting guidance in Subtopic 210-20, Balance Sheet—Offsetting. Those Task Force members observed that in some jurisdictions, an unrecognized tax benefit, a net operating loss carryforward, and a tax credit carryforward may satisfy the conditions of paragraph 210-20-45-1 because the liability would be offset under the provisions of the tax law.

BC7. The Task Force decided that no new recurring disclosures would be required as a result of the amendments in this proposed Update because the amendments do not affect the recognition or measurement of uncertain tax positions under Topic 740 and because the currently required tabular reconciliation of the gross amount of unrecognized tax benefits will provide public entity users with relevant information about the unrecognized tax benefits offset against net operating loss carryforwards or tax credit carryforwards. The existing disclosure requirements in Topic 740 would be unchanged by the amendments in this Update.

Transition and Early Adoption

BC8. The Task Force reached a consensus-for-exposure that the amendments in this proposed Update would be applied retrospectively. The Task Force believes that a retrospective approach would increase the comparability of financial statements for users and would not be costly. The Task Force decided to solicit stakeholder input about the retrospective approach by including a question for respondents in this proposed Update.

BC9. The Task Force decided to permit early adoption of the proposed amendments to eliminate existing diversity in practice as soon as is practicable.

Benefits and Costs

BC10. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Task Force's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC11. The Task Force does not anticipate that entities will incur significant costs as a result of the amendments in this proposed Update. The accounting policy of some entities is similar to the approach in this proposed Update. The accounting policy of other entities is different from the approach in this proposed Update, but the Task Force anticipates that these entities would have the information necessary to apply the proposed amendments to recognize and measure uncertain tax positions, present unrecognized tax benefits in the statement of financial position, and prepare a tax return. The benefits of the proposed amendments would be increased comparability of financial statements among entities and reduced diversity in practice.

Amendments to the XBRL Taxonomy

The provisions of this Exposure Draft, if finalized as proposed, would require changes to the U.S. GAAP Financial Reporting Taxonomy (UGT) as indicated in the following table. We welcome comment on these proposed changes to the UGT at xbrlexposuredraft@fasb.org. After the FASB has completed its deliberations and issued a final Accounting Standards Update, proposed amendments to the UGT will be available for public comment at www.FASB.org and finalized as part of the annual release process.

Element Name	**Standard Label**	**Documentation**
~~UnrecognizedTaxBenefitsResultingInNetOperatingLossCarryforward~~	~~Unrecognized Tax Benefits Resulting in Net Operating Loss Carryforward~~	~~Amount of an unrecognized tax benefit that is directly related to a position taken in a tax year that results in a net operating loss carryforward. This amount is presented as a reduction of the related deferred tax asset in the balance sheet if that deferred tax asset is not used. This amount is presented separately from the deferred tax asset for a net operating loss carryforward if this unrelated tax benefit is associated with a different tax position.~~