Summary of Issues for the November 14, 2013 EITF Meeting[*]
Issues Arranged in Proposed Agenda Order

AGENDA ITEM:	**ADMINISTRATIVE MATTERS** -Welcome -Announcements	**PROPOSED TIME:** 8:00 - 8:15 **STAFF:** Or

AGENDA ISSUE:	**Issue No. 13-E** "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure"	**PROPOSED TIME:** 8:15 – 9:30 **STAFF:** May/Sangiuolo

MEETING NOTES

Background

At the June 11, 2013 EITF meeting, the Task Force reached a consensus-for-exposure to clarify that an in substance repossession or foreclosure occurs, and a creditor (reporting entity) is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (a) the creditor obtaining legal title to the residential real estate property or (b) completion of a deed in lieu of foreclosure or similar legal agreement under which the borrower conveys all interest in the residential real estate property to the creditor to satisfy that loan.

A proposed Update was issued on July 19, 2013, with a September 17, 2013 comment letter deadline. The Task Force received 18 comment letters on this proposed Update. After reviewing the comment letters, the staff performed outreach with the respondents and others, including preparers, professional associations, accounting firms, and regulators.

Scope

Respondents generally agreed that the scope should not be extended because the foreclosure process and applicable laws were significantly different for commercial real estate or nonfinancial assets other than real estate (for example, auto loans). Furthermore, respondents mentioned that there is no diversity in financial reporting of foreclosed commercial real estate loans, and regulatory guidance is more established regarding loans collateralized by commercial real estate properties. Based on the comments received, the FASB staff recommends that the Task Force affirm its consensus-for-exposure and limit the scope to residential real estate loans.

Question 1 for the Task Force: Does the Task Force agree with the staff recommendation to keep the scope of the proposed amendments to residential real estate property collateralizing a consumer mortgage loan?

Reclassification from Loans to Real Estate

Most respondents agreed that a creditor should be considered to have received physical possession of residential real estate upon (a) the creditor obtaining legal title to the residential real estate property or (b) completion of a deed in lieu of foreclosure or similar legal agreement under which the borrower conveys all interest in the residential real estate property to the creditor to satisfy that loan. However, a few respondents disagreed with the proposed Update. They noted that in their view a creditor should be considered to have physical possession before obtaining legal title if the creditor has physical access to abandoned real estate and is maintaining it.

Post-Foreclosure Redemption Rights

[*] **This summary of the Issues was prepared for the convenience of the Task Force and others and should not be considered a substitute for the complete issue summaries.**

Some respondents requested clarification about determining when a creditor should reclassify a loan to real estate under the proposed Update when the borrower has redemption rights after the foreclosure sale and therefore the creditor does not have clear and unencumbered title. The staff believes that the loan should be reclassified at the time ownership transfers to the creditor regardless of redemption rights. The staff believes that this treatment is consistent with the principle that physical possession occurs when the creditor obtains legal ownership of the property. To avoid potential diversity in practice over the interpretation of whether a creditor has legal title when the borrower has redemption rights, the staff recommends clarifying the use of the term *legal title* in proposed new paragraph 310-40-55-10A(a) of the proposed Update as follows (additions are underscored):

a. The creditor obtaining legal title to the residential real estate property. A creditor may obtain legal title to the residential real estate property through foreclosure even if the borrower has redemption rights whereby it can legally reclaim the real estate property for a period of time.

Question 2 for the Task Force: Does the Task Force agree with the staff's recommended clarification of the timing of the creditor obtaining *legal title* in the proposed new paragraph 310-40-55-10A(a)?

Deed in lieu of foreclosure and legal title

Some respondents pointed out that "completion of a deed in lieu of foreclosure or similar legal agreement to convey all interest" represents the granting of the legal title to the financial institution. The legal definition of convey is "to transfer; pass the title to." Respondents emphasized that recording of the deed is a process to protect the owner's interest in the property after legal title has already passed. To avoid any misinterpretation, the staff recommends the following modification to proposed new paragraph 310-40-55-10A(b) of the proposed Update as follows (deletions are ~~struck through~~):

> Completion of a deed in lieu of foreclosure or similar legal agreement under which the borrower conveys all interest in the residential real estate property to the creditor to satisfy that loan~~, even though legal title may not yet have passed~~. The deed in lieu of foreclosure or similar legal agreement is completed when agreed terms and conditions have been satisfied by both the borrower and the creditor.

Question 3 for the Task Force: Does the Task Force agree with the staff's recommended modification to the proposed new paragraph 310-40-55-10A(b) of the proposed Update?

View B: Physical Possession before Legal Title

In the original Issue Summary, View B provided indicators for the creditor to assess whether it has significant involvement with the collateral such that its primary risk is real estate risk related to the value of the property, due to its intent to recover on the loan through the sale of that property. However, Task Force members raised a concern about View B based on its potential subjectivity and the lack of consistency that could result as entities make facts-and-circumstances-based judgments.

The staff now believes that View B is more operational than previously understood. However, the staff supports the view that a loan should not be reclassified to foreclosed residential real estate owned until the creditor obtains legal title since prior to obtaining title the creditor only has protective rights associated with the property and cannot legally or practically market or rent the property. Accordingly, the staff recommends that the Task Force reaffirm its consensus for exposure that physical possession occurs when the creditor obtains legal title at foreclosure or through a deed in lieu of foreclosure or similar legal agreement.

Question 4 for the Task Force: Does the Task Force wish to reaffirm its consensus-for-exposure that physical possession occurs when the creditor obtains legal title at foreclosure or through a deed in lieu of foreclosure or similar legal agreement, subject to the modifications outlined in Questions 2 and 3?

Disclosure
Most respondents disagreed with the proposed disclosures of (a) the recorded investment in consumer mortgage loans that are in the process of foreclosure and (b) a roll-forward schedule. The staff recommends eliminating the proposed roll-forward and retaining the requirement in the proposed Update to disclose the amount of foreclosed residential real estate held along with the amount of residential real estate mortgages in the process of foreclosure.

Question 5 for the Task Force: Does the Task Force agree with the staff recommendation to eliminate the roll-forward requirement in the proposed Update and require disclosure of the amount of outstanding foreclosed residential real estate at each balance sheet date, along with the amount of the recorded investment in residential real estate mortgage loans in the process of foreclosure?

Transition and Early Adoption
Considering the feedback provided, the staff recommends that the Task Force allow an entity to adopt the guidance on either a prospective basis or a modified retrospective basis with a cumulative effect adjustment.

Question 6 for the Task Force: Does the Task Force agree with the staff recommendation that the proposed guidance can be adopted on either a prospective or a modified retrospective basis as follows:

- **a. For prospective transition, a reporting entity would apply the proposed reclassification guidance to all existing residential loans and to any new residential loans after the date of adoption.**
- **b. For modified retrospective transition, the reporting entity would adopt by means of a cumulative-effect adjustment as of the beginning of the reporting period that the guidance is effective to all residential loans and foreclosed residential real estate properties existing as of the date of adoption. Any necessary reclassification from real estate to loans would be based on the carrying value of the real estate at the date of adoption.**

Effective Date
Most respondents stated that the implementation should not take longer than one year. After considering the feedback received, the FASB staff recommends that the amendments in the proposed Update be effective for fiscal years beginning after December 15, 2014, and interim periods within those fiscal years for both public and nonpublic entities. Early adoption should be permitted.

Question 7 for the Task Force: Does the Task Force agree with the staff recommendation on the effective date for the proposed Update and on permitting early adoption?

AGENDA ISSUE:	**Issue No. 13-F** "Classification of Certain Government Insured Residential Mortgage Loans upon Foreclosure by a Creditor"	**PROPOSED TIME:** 9:30 – 10:30 **STAFF:** May/Sangiuolo

	MEETING NOTES
Background and Scope Government insured mortgage loans are mortgages that the government agrees to pay the creditor for if the homeowner stops making payments. This insurance provides creditors with protection against losses resulting from homeowners who default on their loans, and takes the place of private mortgage insurance. Loans are extended by approved creditors, and those loans must meet certain requirements established by the program to qualify for insurance. Currently, the most common government loan guarantee programs are those offered by the Federal Housing Administration (FHA) of the U.S. Department of Housing and Urban Development (HUD). This Issue applies to the balance sheet classification of residential mortgage loans issued by banks or other mortgage lenders that have both of following two characteristics: a. The loan has a government guarantee (that is not separable from the loan) entitling the creditor to the full unpaid principal balance of the loan b. At the time of foreclosure (as determined by paragraph 310-40-40-6), the creditor has the intent to make a claim on the guarantee and the ability to recover through the guarantee. **Accounting Issue and Alternatives** Currently, there is diversity in practice related to creditors' classification and disclosure of foreclosed government insured residential mortgage loans. This Issue is intended to reduce that diversity by addressing the classification of government guaranteed loans directly held by the creditor. There are four views on the classification of a fully guaranteed loan after foreclosure: View A. *The creditor should record two units of account: foreclosed real estate and a guarantee receivable*. View B. *The creditor should reclassify the loan to other real estate owned (OREO) at the amount expected to be recovered through the guarantee*. View C. *The creditor should continue to classify the asset as a mortgage loan (no reclassification)*. View D. *The creditor should reclassify the loan to a separate receivable*. The staff understands that based on outreach and discussions with regulators of financial institutions, Views B and D are most often applied in practice. The staff understands that Views A and C are rarely, if ever, applied in practice. **Recurring Disclosures** Some stakeholders believe that entities should provide disclosures of the full amount expected to be received under the guarantee, and the fair value less cost to sell of the underlying property of the government guaranteed loans. Currently, depository institutions are required to separately show other real estate-owned investments related to foreclosed properties backing government guaranteed loans as part of the Call Report. **Transition** The staff considered but did not identify any scenario in which the net assets in the current or prior periods would be affected as a result of changing from one classification to another within the four views because total assets would always represent the amount the creditor expects to recover under the guarantee, less any reserves. Therefore, the following two transition alternatives only affect balance sheet classification. View A. *Entities should apply this Issue on a full retrospective basis to all loans within the scope of this Issue.*	

The financial statements for all periods presented would be adjusted upon the date of adoption. Full retrospective transition provides comparability between all periods presented.

View B. *Follow the same transition approach as decided by the Task Force under Issue 13-E.*

In Issue 13-E, the Task Force is currently deliberating the timing of reclassifying residential mortgage loans to real estate. The scope of that Issue is a subset of the scope of Issue 13-E. The staff assumes under View B that Issue 13-E is finalized and effective either at the same time or before this Issue would be effective. The Task Force tentatively decided that the proposed amendments of Issue 13-E would be adopted based on a modified retrospective approach with a cumulative effect adjustment as of the beginning of the period of adoption, if any, booked through beginning retained earnings.

Transition Disclosures

The guidance on other presentation matters in Subtopic 250-10, Accounting Changes and Error Corrections—Overall, is applicable for any voluntary change in accounting principle, including a change in the method of applying an accounting principle. The staff recommends that the Task Force not require any additional disclosures other than the requirements in paragraphs 250-10-50-1 through 50-3.

AGENDA ISSUE:	**Issue No. 12-F** "Recognition of New Accounting Basis (Pushdown) in Certain Circumstances"	**PROPOSED TIME:** 10:45 – 12:15 **STAFF:** Gupta/Or

Background In previous meetings, the Task Force directed the FASB staff to develop a model in which pushdown accounting could be optionally applied by an acquired entity when an acquirer has obtained control of the acquired entity. The Task Force decided that once it has discussed the optional model with the change-in-control threshold, it would then consider whether pushdown accounting should be made mandatory and, if so, at what level it should be made mandatory. **Accounting Issues and Alternatives Pertaining to the Change-In-Control-Based Model** **Issue 1: Whether an acquired entity whose control is obtained by an acquirer without transfer of consideration (such as, a change in the primary beneficiary of a variable interest entity or a change-in-control by contract alone) should apply pushdown accounting in its separate financial statements.** *View A: Pushdown accounting should be applied even if control is obtained without transfer of consideration.* *View B: Pushdown accounting should not be applied when control is obtained without transfer of consideration.* **Issue 2: Whether acquisition-related debt incurred by the acquirer should be recognized in the acquired entity's separate financial statements.** *View A: Acquisition-related debt incurred by the acquirer should be recognized in the acquired entity's separate financial statements.* *View B: Acquisition-related debt incurred by the acquirer should not be recognized in the acquired entity's separate financial statements unless the acquired entity is required to recognize the liability for the debt in accordance with other applicable U.S. GAAP.* **Issue 3: Whether goodwill should be recognized in the separate financial statements of the acquired entity.** *View A: Goodwill should be recognized in the separate financial statements of the acquired entity.* *View B: Goodwill should not be recognized in the separate financial statements of the acquired entity.* **Issue 4: Whether bargain purchase gains should be recognized in the separate financial statements of the acquired entity.** *View A: Bargain purchase gains should be recognized in the separate financial statements of the acquired entity.* *View B: Bargain purchase gains should not be recognized in the separate financial statements of the acquired entity.* **Issue 5: Whether there are any circumstances in which pushdown accounting is not appropriate and, therefore, should be precluded.** *View A: Pushdown accounting can be applied in all circumstances in which the acquired entity falls within the scope of the change-in-control-based optional model.* *View B: There should be circumstances in which pushdown accounting should be prohibited (for example, when significant noncontrolling interests, publicly traded debt securities, or preferred stock exist).* **Issue 6: Whether pushdown accounting should be required or optional. If required, the circumstances in which it should be required.** *View A: Pushdown accounting should be optional for all acquired entities that fall within the scope of this guidance (a change-in-control event).*	**MEETING NOTES**

View B: Pushdown accounting should be required when the acquired entity becomes substantially wholly owned as a result of a business combination and should be optional for all other acquired entities that fall within the scope of this guidance (a change-in-control event).
View C: Pushdown accounting should be required for all acquired entities that fall within the scope of this guidance (change-in-control events).
View D: Pushdown accounting should be required only when the acquired entity becomes substantially wholly owned as a result of the business combination and should be prohibited otherwise.

If the Task Force tentatively concludes on View B or View D, the Task Force would need to consider additional follow-on issues at a future meeting, such as the following:

a. Definition of "substantially wholly-owned" including the related issue of "collaborative groups"
b. Potential exceptions for mandatory application of pushdown accounting at the substantially wholly-owned level, such as when there is public debt or other significant interest holders
c. Whether pushdown accounting should also be required for nonpublic entities at the substantially wholly-owned threshold level (currently, pushdown accounting is optional for nonpublic entities)
d. Application of pushdown accounting when an entity becomes substantially wholly-owned as a result of a series of transactions over time (step acquisitions).

Disclosures
The FASB staff believes that the guidance should provide the disclosure objective to enable users of financial statements of the acquired entity to evaluate the nature and effect of the pushdown accounting on its financial statements. The staff recommends that the Task Force require entities to apply the existing disclosure requirements in Topic 805 to meet the stated objective.

Transition
The FASB staff recommends that an acquired entity should apply pushdown accounting guidance prospectively to all change-in-control events that occur after the effective date of the final Update. If the change-in-control model is made optional, a mandatory retrospective transition would still provide entities with an option to either apply pushdown accounting or not apply it to past change-in-control events. The staff recommends that entities should be allowed to apply the guidance retrospectively.

The FASB staff also recommends that the acquired entity should evaluate the option to apply pushdown accounting at each change-in-control event separately, and the guidance should not be treated as a one-time accounting policy election.

Outreach Summary and FASB Staff Analysis and Recommendations	MEETING NOTES

Outreach Summary and FASB Staff Analysis and Recommendations

The FASB staff performed outreach with a number of stakeholders including nine preparers; two accounting firms; one industry task force represented by users, preparers, and accountants; and one banking regulator to obtain feedback on one or more of the following topics:

a. Classification of the tax credit investment as a deferred tax asset on the balance sheet
b. Whether the guidance in the proposed Update should be expanded to include other types of tax credit investments, and whether other types of tax credit investments would meet the revised amended conditions in the proposed Update
c. Whether other transactions between an investor and a limited liability entity may be common in other types of tax credit investments.

Deferred tax asset classification

All stakeholders disagreed with presenting the tax credit investment as a deferred tax asset on the balance sheet. Most stakeholders noted that the tax credit investment does not meet the definition of a deferred tax asset in Topic 740. Stakeholders stated that the tax credit investment is neither a difference between the tax basis of the investment and the reported amount in the financial statements nor analogous to a tax credit carryforward because the related tax credits are not earned and therefore are not available at the time of initial investment.

Constituents also stated that the classification of the tax credit investment as a deferred tax asset would adversely affect the minimum regulatory capital requirements for reporting entities subject to U.S. and global banking industry regulations because deferred tax assets do not have the same risk weighting in those calculations as investments do.

Based on the feedback received, the FASB staff recommends that the guidance in the proposed Update not specify the balance sheet classification of tax credit investments within the scope of the proposed Update.

Question 1 for the Task Force: Does the Task Force agree with the FASB staff recommendation to not provide guidance about the balance sheet classification of tax credit investments within the scope of the proposed Update?

Expanding the Scope to Include Other Tax Credit Investments

During the FASB staff outreach, most stakeholders stated that the revised amended conditions in the proposed Update provide a framework for principles-based application and are appropriate to apply to other types of tax credit investments. That feedback was consistent with the feedback received through the comment letters.

During the FASB staff outreach, many of the preparers stated that they also hold other types of tax credit investments, including New Markets, Renewable Energy, and Historic tax credit investments; however, those investments are typically a smaller part of their investment portfolios than LIHTC investments. Those preparers and two accounting firms indicated that fewer of those other types of tax credit investments would likely meet the conditions in the proposed Update (compared to LIHTC) because substantial non-tax related cash returns or other profits may exist in those investments that would preclude them from applying the guidance in the proposed Update.

Although each investment type has its unique tax credit calculation and allocation methods, if substantially all of the investor's returns are generated from tax credits and other tax benefits, and if all other conditions in the proposed Update are met, the FASB staff believes that the use of the proportional method should also be allowed for investments in other tax credits. Otherwise, investors would have to apply different accounting methods for economically similar investments.

Based on the feedback received and the aforementioned reasons, the FASB staff believes that the scope of the proposed guidance should be extended to all tax credit investments that meet the revised amended conditions in the proposed Update. At a minimum, the FASB staff believes that the Task Force should permit application of the LIHTC guidance by analogy to all investments in tax credits that meet the proposed conditions.

Other Transactions between the Investor and the Limited Liability Entity

The Task Force tentatively decided that other transactions, such as bank loans, between the investor and the limited liability entity should not be considered in determining whether the conditions in the proposed Update are met, provided that (a) the reporting entity is in the business of entering into those transactions, (b) those transactions are entered into at market rates commensurate to rates offered to other counterparties with similar credit quality, and (c) the transactions do not give the reporting entity the ability to exercise significant influence over the operating and financial policies of the limited liability entity. Based on the feedback received during outreach, the FASB staff believes that the provision in the proposed Update that deals with other transactions also appropriately applies to other types of tax credit investments. Therefore, the FASB staff also recommends retaining the other-transactions provision even if the scope is extended to all tax credit investments that meet the revised amended conditions.

Question 2 for the Task Force: Does the Task Force agree with the FASB staff recommendation to expand the scope of the proposed Update to include all tax credit investments that meet the revised amended conditions?

Use of Other Tax Benefits under the Proportional Amortization Method

Although it was not a specific follow-up item, during the FASB staff's outreach, stakeholders expressed concern about the Task Force's tentative decision that prescribes the use of both tax credits and other tax benefits in the amortization calculation. Stakeholders noted that they would prefer an amortization model based solely on tax credits because the benefits to investors of a more precise amortization method do not justify the complexity associated with that method.

The FASB staff continues to believe that an amortization method based solely on tax credits would still appropriately reflect the pattern of primary benefits (tax credits) in a cost-effective manner for <u>all</u> tax credit investments. Alternatively, if the Task Force does not want to prescribe the specific inputs to the amortization method, the FASB staff believes that a more principles-based approach can be sought.

Question 3 for the Task Force: Does the Task Force agree with the FASB staff recommendation to either (a) prescribe that only tax credits should be used in applying the proportional method of amortization or (b) introduce a principle premised on the primary benefit of the investment as articulated above?

Consideration of a Revised Exposure Draft

The FASB staff believes that it has received sufficient input from both the comment letters and the subsequent outreach on all key decisions, including scope. The FASB staff also believes that stakeholders had sufficient opportunity to consider the implications of all of the tentative decisions with one exception: the deferred tax asset presentation. If the tentative decision to present investments as deferred tax assets is not affirmed as a consensus, the FASB staff recommends that a revised exposure draft would not be necessary and the final Update can be issued.

Question 4 for the Task Force: Does the Task Force believe that a revised Exposure Draft should be issued?

AGENDA ISSUE:	**Issue No. 12-G** "Measuring the Financial Assets and Liabilities of a Consolidated Collateralized Financing Entity"	**PROPOSED TIME:** 2:45 – 4:15 **STAFF:** Hillenmeyer/McKinney

Background	**MEETING NOTES**
The Task Force reached a consensus-for-exposure that a reporting entity that has previously measured the financial assets and financial liabilities of a consolidated CFE at fair value would be required to apply the revised proposed amendments in measuring the financial liabilities of the CFE. The Task Force decided that the value of the financial liabilities would be determined on the basis of the sum of the fair value of the financial assets and the carrying value of any nonfinancial assets, less the sum of the fair value of the financial assets and the carrying value of any nonfinancial assets attributable to the beneficial interest owned by the reporting entity and the carrying value of any beneficial interests that represent compensation for services rendered by the reporting entity. The proposed Update was issued on July 19, 2013. Twenty-two comment letters were received. **Accounting Issues and Alternatives** **Issue 1: Measurement** *View A: No changes should be made to the proposed Update.* *View B: Allow entities to use the more observable of the fair value of the financial assets or the financial liabilities to measure the financial assets and the financial liabilities of a collateralized financing entity.* In View B, a reporting entity that consolidates a collateralized financing entity would recognize and measure the CFE's assets and liabilities based on the fair value of the financial assets or the financial liabilities of a collateralized financing entity, whichever is more observable. The more observable value of the financial assets and the financial liabilities would be allocated to the one with the less observable value. Whether View A or View B is selected, the FASB staff believes that the Task Force should clarify that the changes in the fair value of the beneficial interests owned by reporting entity would be recognized in a reporting entity's income statement. That would require a reporting entity to measure the fair value of its owned beneficial interests (excluding those that represent compensation for services). The staff understands that most reporting entities already measure the fair value of their beneficial interests today. The staff recommends View B. The staff believes that View B addresses the concerns raised by most of the respondents about fair value measurements and the income statement effect of owned beneficial interests. ***Question 1: Does the Task Force agree with the staff's recommended amendments to the revised proposed Update such that a consolidated CFE's financial assets and liabilities would be measured on the basis of the fair value of the CFE's financial assets or financial liabilities, whichever is more observable?*** ***Question 2: Does the Task Force agree that the income statement impact of consolidating a CFE should be clarified to reflect the changes in the fair value of the reporting entity's owned beneficial interests in the CFE (excluding those related to compensation for services provided by the reporting entity to the CFE)?*** **Issue 2: Scope** The FASB staff does not recommend any further changes to the scope of the Issue.	

Question 3: Does the Task Force wish to reaffirm the scope of the proposed amendments?

Issue 3: Disclosures

If the Task Force revises the measurement attribute to the approach outlined in View B, the disclosure requirements should be revised accordingly. The Task Force decided that the disclosure requirements in Topics 820 and 825 related to the fair value of financial instruments would not be applicable to financial liabilities measured under the revised proposed Update. The FASB staff recommends that the above paragraph be amended to reflect those disclosures that also would not be applicable to financial assets that are measured based on the fair value of financial liabilities.

Question 4: If changes are made to the measurement as outlined in View B, does the Task Force wish to revise the disclosure requirements as recommended by the staff above?

Issue 4: Transition, Effective Date and Early Adoption

The staff believes that the adoption of this guidance should be an accounting policy election applied consistently to all consolidated CFEs. Therefore, if the Task Force agrees with the staff's recommendation on scope, the staff recommends that all reporting entities be given an accounting policy election at the time of transition (effective date or the date on which an entity consolidates a CFE for the first time) such that the reporting entity can either adopt this guidance or apply other Topics in U.S. GAAP (except fair value option) to account for the CFE's assets and liabilities. The staff believes that all reporting entities should adopt the guidance using either the modified retrospective transition method as consistent with the revised proposed Update or using the full retrospective transition method.

The staff believes that the effective date should be delayed, such that the amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2014, for all entities. However, those that wish to apply the amendments sooner should have the ability to do so through early adoption.

Question 5: Does the Task Force agree with the staff's recommended transition requirements and agree with the revised effective date described above, with early adoption permitted?

Reexposure

The FASB staff believes that if View B is selected, it is a change that would not necessitate reexposure because it is based on direct feedback from constituents on the two previous exposure drafts and additional outreach performed by the FASB staff. Furthermore, View B provides more flexibility than the previous approach by allowing the use of the measurement that is more observable.

The FASB staff believes that it has received sufficient input through both the comment letters and the subsequent outreach on all key decisions. The FASB staff also believes that constituents had sufficient opportunity to consider the implications of the decisions.

Question 6: Does the Task Force believe that the revised proposed Update should be reexposed again?

AGENDA ISSUE:	**Issue No. 12-H** "Accounting for Service Concession Arrangements"	**PROPOSED TIME:** 4:15 – 5:30 **STAFF:** Gagnon/Mottley

Background

The Task Force reached a consensus-for-exposure that a service concession arrangement within the scope of this Issue should not be accounted for as a lease under Topic 840 and issued a proposed Update on July 19, 2013. Three comment letters were received on the proposed Update.

Scope

The FASB staff notes that the types of arrangements for which guidance is primarily being sought are those service concession arrangements for which the arrangement has a public-service nature intended to benefit the general public and accomplish a public duty or responsibility. The staff considered defining the scope based on the public-service nature of the arrangement instead of the type of the grantor. However, the staff noted that such a distinction would be overly subjective. Accordingly, the staff believes that defining the scope based on the type of grantor (that is, public-sector entities) is more operable. Moreover, the public-sector specific scope is consistent with the scope of the guidance in IFRS for service concession arrangements (IFRIC 12), which also emphasizes the public-service nature of those arrangements in its scope.

The staff further notes that the accounting for private-to-private service concession arrangements has not been brought to the staff's attention as being a prevalent issue in practice. Expanding the scope of this Issue may delay the issuance of the final Update because entities that would be affected by the enlarged scope may need to be given the opportunity to comment. The staff believes that if guidance is needed for other types of service concession arrangements, a separate project could be undertaken at a later date. In summary, the staff believes that the scope of this Issue should be limited to service concession arrangements for which the grantor is a public-sector entity.

Question 1 for the Task Force: Does the Task Force wish to affirm its consensus-for-exposure that the scope of this Issue should include only service concession arrangements for which the grantor is a public-sector entity?

Recognition

The staff believes that the accounting for service concession arrangements should be determined on the basis of whether the operating entity controls the infrastructure that is being used to provide the public service. 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. The staff recommends that the Task Force reaffirm its consensus-for-exposure that service concession arrangements within the scope of this Issue should not be accounted for as leases under Topic 840.

Question 2 for the Task Force: Does the Task Force wish to affirm its consensus-for-exposure that service concession arrangements within the scope of this Issue should not be accounted for as leases under Topic 840?

The staff notes that under U.S. GAAP, different principles apply to determining whether an entity has control of an asset versus control of another entity. If an infrastructure used in the service concession arrangement is held within an entity and controlled by that entity, the staff believes that a reporting entity should first determine whether it should consolidate the infrastructure entity under Topic 810 before applying the guidance in the proposed Update. If consolidation is not required, an operating entity should assess whether the arrangement qualifies for the scope of this Issue by evaluating the conditions in the proposed Update. If the arrangement is within the scope of this Issue, the reporting entity should not recognize the arrangement as a lease or the infrastructure asset as property, plant, and equipment.

MEETING NOTES

The staff believes that when the operating entity does not control the use of the infrastructure under the terms of the arrangement and when the arrangement does not quality as a lease, the operating entity's rights over the infrastructure should not result in the infrastructure being recognized as property, plant, and equipment of the operating entity. An operating entity would look to other relevant Codification Topics, as applicable, to account for various aspects of a service concession arrangement.

Question 3 for the Task Force: Does the Task Force wish to affirm its consensus-for-exposure that the infrastructure that is the subject of a service concession arrangement within the scope of this Issue should not be recognized as property, plant, and equipment of the operating entity?

Transition

In question 4, respondents were asked whether they agreed that the amendments in the proposed Update should be applied using a modified retrospective approach to all arrangements existing at the beginning of the reporting entity's fiscal year of adoption. The modified retrospective approach would require the cumulative effect of applying the proposal to arrangements existing at the beginning of the period of adoption to be recognized as an adjustment to the opening retained earnings in the period of adoption. The staff does not believe that additional transition guidance should be provided because, to be useful, any such guidance would have to contemplate the multiple different accounting methods previously applied by preparers and related accounting issues for those arrangements. Rather, the staff believes that practice can determine the most appropriate way to transition to this guidance.

Question 4 for the Task Force: Does the Task Force wish to affirm its consensus-for-exposure that the final Update would be applied on a modified retrospective basis to service concession arrangements that exist at the beginning of an entity's fiscal year of adoption?

Effective Date and Early Adoption

The FASB staff has considered the feedback and recommends that the amendments in the final Update be effective for annual reporting periods beginning after December 15, 2014, including interim reporting periods within those years, with early adoption permitted.

Question 5 for the Task Force: Does the Task Force agree with the FASB staff recommendation that the amendments that result from this Issue should be effective for fiscal years (and interim reporting periods within those fiscal years) beginning after December 15, 2014, with early adoption permitted?