FASB FINANCIAL ACCOUNTING STANDARDS BOARD

Board Meeting Handout

Ratification of EITF Consensuses and Consensuses-for-Exposure
June 26, 2013

At today's meeting, the staff will request that the Board consider ratifying two consensuses and three consensuses-for-exposure reached by the Emerging Issues Task Force at its June 11, 2013 meeting.

TASK FORCE CONSENSUSES

1. Issue 13-A, "**Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes**"**—**The Task Force reached a consensus to include the Fed Funds Effective Swap Rate (OIS) as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to UST and LIBOR. In addition, the consensus removes the restriction on using different benchmark rates for similar hedges.

The Task Force reached a consensus that no additional recurring disclosures should be required by this Issue.

The Task Force reached a consensus that the amendments in the Update should be applied on a prospective basis for qualifying new or redesignated hedging relationships entered into on or after the date of issuance of the final Update. The Task Force also reached a consensus to not require any additional transition disclosures. Amendments in the Update are effective immediately upon issuance.

Question for the Board

Question 1: Does the Board wish to ratify the consensus for Issue 13-A?

2. Issue 13-C, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists"— The Task Force reached a consensus that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, shall be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward either is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or would not be utilized for such purpose, the unrecognized tax benefit shall be presented in the financial statements as a liability and shall not be combined with deferred tax liabilities or assets. The assessment is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date; an entity would not evaluate whether the deferred tax asset expires before the statute of limitations on the tax position.

The Task Force reached a consensus that no additional recurring disclosures would be required by this Issue.

The Task Force reached a consensus that the amendments in the Update should be applied 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 fiscal years (and interim reporting periods within those years) beginning after December 15, 2014. Early adoption is permitted. The Task Force decided that an entity should be permitted to adopt the amendments on a retrospective basis.

Question for the Board

Question 2: Does the Board wish to ratify the consensus for Issue 13-C?

TASK FORCE CONSENSUSES-FOR-EXPOSURE

3. Issue 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"—The Task Force reached a revised consensus-for-exposure that defines collateralized financing entity as an entity that holds financial assets, issues beneficial interests in those financial assets, and has no more than nominal equity and that all of the beneficial interests that have recourse to the related financial assets of the collateralized financing entity are classified as financial liabilities. The revised proposed Update allows a collateralized financing entity to hold nonfinancial assets temporarily as a result of default by the debtor on the underlying debt instruments held as assets by the collateralized financing entity or in an effort to restructure the debt instruments held as assets by the collateralized financing entity.

The amendments in the revised proposed Update would require a reporting entity within the scope of the revised proposed Update to measure the financial liabilities of the collateralized financing entity using the following calculation:

1. The sum of the following two amounts:
    a. The fair value of the financial assets held by the collateralized financing entity
    b. The carrying value of any nonfinancial assets held by the collateralized financing entity
2. Less the sum of the following two amounts:
    a. The sum of the fair value of financial assets and the carrying value of nonfinancial assets that relates to the beneficial interest owned by the reporting entity
    b. The carrying value of any beneficial interests that represent compensation for services rendered by the reporting entity.

A reporting entity would allocate the calculated value above to the individual financial liabilities on a reasonable and consistent basis using a methodology appropriate in the circumstances. Beneficial interests that represent compensation for services (such as management fees) and nonfinancial assets that are being held temporarily by a collateralized financing entity as a result of default by the debtor on the underlying debt instruments held as assets by the collateralized financing entity or in an effort to restructure the debt instruments held as assets by the collateralized financing entity would be measured in accordance with other applicable U.S. GAAP.

Changes in the value of the beneficial interests (other than beneficial interests that represent compensation for services) owned by the reporting entity would be recognized in the consolidated income statement of the reporting entity.

The Task Force reached a revised consensus-for-exposure that a reporting entity that consolidates a collateralized financing entity under this guidance should disclose all of the information required by paragraph 820-10-50-2(bbb) for the financial assets. For the financial liabilities, a reporting entity should disclose that the liability amounts are determined on the basis of the fair value of the financial assets and the carrying value of any nonfinancial assets.

The Task Force also decided that a reporting entity that consolidates a collateralized financing entity and that elects, at the date of adopting the amendments in the revised proposed Update, the fair value option to measure the collateralized financing entity's financial assets and financial liabilities would not be required to comply with the fair value measurement disclosures for the collateralized financing entity's financial liabilities.

The Task Force reached a revised consensus-for-exposure that the amendments in the revised proposed Update should be applied using a modified retrospective approach. In addition, the Task Force agreed that reporting entities that previously measured all eligible financial assets and financial liabilities of the consolidated collateralized financing entity at fair value may apply the amendments either retrospectively to all relevant prior periods beginning with the fiscal year in which the amendments in Update 2009-17 were initially adopted, or using the modified retrospective method of adoption. Entities electing the fair value option at the date of adoption should only apply the amendments in the revised proposed Update using the modified retrospective method of adoption.

The Task Force clarified that under the modified retrospective approach, a reporting entity would remeasure the financial assets and financial liabilities using the guidance as of the beginning of the period of adoption and record a cumulative-effect adjustment to equity.

The Task Force reached a consensus-for-exposure that the amendments in the revised proposed Update should be effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments in the revised proposed Update should be effective one year after the first annual period in which public entities are required to adopt them. The effective dates will be redeliberated after the Task Force considers stakeholder feedback on the revised proposed Update.

Question for the Board

Question 3: Does the Board wish to ratify the revised consensus-for-exposure for Issue 12-G?

4. Issue 12-H, "Accounting for Service Concession Arrangements"—The Task Force reached a consensus-for-exposure to define a public-to-private service concession arrangement as an arrangement under which a grantor (a public sector entity) enters into a contract with an operating entity to operate the grantor's infrastructure for purposes of providing a public service. A public sector entity includes a governmental body or a nongovernmental entity to which the responsibility to provide public service has been delegated. In a public-to-private service concession arrangement, both of the following conditions exist:

a. The grantor controls or has the ability to modify or approve the 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.

The Task Force reached a consensus-for-exposure that a service concession arrangement that is within the scope of this Issue is not a lease under Topic 840. In addition, the Task Force reached a consensus-for-exposure that an operating entity would look to other relevant Codification Topics, as applicable, to account for the various aspects of a service concession arrangement. The Task Force also noted that the infrastructure used in a service concession arrangement would not be recognized as property, plant, and equipment of the operating entity.

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

The Task Force reached a consensus-for-exposure that the amendments resulting from this Issue 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. The modified retrospective approach would require the cumulative effect of applying the proposed Update to contracts existing at the beginning of the period of adoption to be recognized as an adjustment to the opening retained earnings for the period of adoption.

The Task Force reached a consensus-for-exposure that the effective date will be determined after the Task Force considers stakeholder feedback on the proposed Update.

Question for the Board

Question 4:	Does the Board wish to ratify the consensus-for-exposure for Issue 12-H?

5. Issue 13-E, "Reclassification of Collateralized Mortgage Loans upon a Troubled Debt Restructuring"—The Task Force reached a consensus-for-exposure to clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have taken physical possession of residential real estate property collateralizing a consumer mortgage loan, 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 interests in the residential real estate property to the creditor to satisfy that loan, even though legal title may not yet have passed.

The Task Force reached a consensus-for-exposure to require a roll forward of foreclosed and repossessed residential real estate property collateralizing a consumer mortgage loan at every reporting period and to disclose the carrying amount of consumer mortgage loans secured by residential properties that are in the process of foreclosure according to local requirements.

The Task Force reached a consensus-for-exposure that the amendments resulting from this Issue would be applied on a modified retrospective basis to collateralized residential consumer mortgage loans and foreclosed residential real estate properties existing at the date of adoption by means of a cumulative-effect adjustment as of the beginning of the reporting period for which the guidance is effective. The cumulative-effect adjustment would be recorded by reflecting any reclassification between residential consumer mortgage loans and foreclosed residential real estate properties at the date of adoption in the carrying amounts of those assets as of the beginning of the current year presented. An offsetting adjustment, if any, would be made to the opening balance of retained earnings for the current year. Prior periods would not be adjusted, and early adoption would be permitted.

The Task Force reached a 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.

Question for the Board

Question 5:	Does the Board wish to ratify the consensus-for-exposure for Issue 13-E?

EXPOSURE PERIOD FOR THE CONSENSUSES-FOR-EXPOSURE

Question for the Board

Question 6: Does the Board agree with the staff's recommendation that the proposed Updates for Issues 12-G, 12-H, and 13-E be exposed for a 60-day comment period?