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August 20, 2003

TO: MEMBERS OF THE FASB EMERGING ISSUES TASK FORCE

Included are the final minutes of the July 31, 2003 meeting of the FASB Emerging Issues Task Force and an inventory of open issues for the next EITF meeting. After your review, please discard the confidential marked version of the minutes. An updated statistical summary of EITF Issues will be made available on the FASB Website.

Issue 03-8
The FASB staff is in the process of revising the Issue 03-8 codification and plans to circulate a revised codification for Task Force member review in the near future. Accordingly, the minutes for Issue 03-8 summarize the Task Force's discussion at the July 31, 2003 meeting but do not contain either the original or the revised version of the codification.

Issue 03-10
The FASB staff is working to develop a draft abstract reflecting the tentative conclusion on Issue 03-10 and plans to post it to the FASB website for review and comment in the near future.

November Meeting Time and Location
As announced earlier, the Task Force Chairman has decided to **cancel the EITF meeting scheduled for September 16, 2003**, and extend the November meeting to include a "full" day on **Wednesday, November 12**. Wednesday's session will begin at **10:00 a.m.** and conclude at **6:00 p.m.**, and reconvene on **Thursday, November 13, 2003**, beginning at **8:00 a.m.** and will conclude no later than **4:00 p.m.**

EITF Agenda Committee Materials
Descriptions of proposed issues and any other items for EITF consideration should be submitted by no later than **Monday, September 8, 2003**, so that they may be considered by the EITF Agenda Committee and then distributed to Task Force members sufficiently in advance of the meeting.

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

Draft minutes available	**November 18, 2003**
Final minutes available	**December 3, 2003**

Please call me at extension 229 if you have any questions.

Sincerely,

Patrick G. Durbin
Practice Fellow

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MINUTES OF THE JULY 31, 2003 OPEN MEETING OF THE FASB EMERGING ISSUES TASK FORCE

Location: FASB Offices
401 Merritt 7
Norwalk, Connecticut

Thursday, July 31, 2003

Starting Time:	8:00 a.m.
Concluding Time:	4:00 p.m.

Task Force Members Present:
Lawrence W. Smith (Chairman)
Frank H. Brod
Jack T. Ciesielski
Mitchell A. Danaher
Leland E. Graul
Joseph F. Graziano
John M. Guinan
Stuart H. Harden
David L. Holman
James A. Johnson
David B. Kaplan
Louis W. Matusiak, Jr.
Ashwinpaul C. (Tony) Sondhi
Richard H. Stock
Mark V. Sever (AcSEC Observer)
Scott A. Taub (SEC Observer)

Task Force Members Absent:
None

Others at Meeting Table:
Robert H. Herz, FASB Board Member
Gary S. Schieneman, FASB Board Member
Katherine A. Schipper, FASB Board Member
Leslie F. Seidman, FASB Board Member
Edward W. Trott, FASB Board Member
Gregory A. Faucette, SEC Professional Accounting Fellow
Shelly C. Luisi, SEC Associate Chief Accountant
Patrick G. Durbin, FASB Practice Fellow
* Brian F. Degano, FASB Practice Fellow
* Christopher J. Larson, FASB Practice Fellow
* Samuel O. Lynn, FASB Practice Fellow
* Gregory S. Martin, FASB Practice Fellow
* Lisa M. Munro, FASB Practice Fellow
* Matthew H. Pinson, FASB Practice Fellow
* Brooke E. Richards, FASB Assistant Project Manager
* Marina I. Sletten, FASB Project Manager

* For certain issues only.

ADMINISTRATIVE MATTERS

- The Task Force Chairman introduced Ashwinpaul C. (Tony) Sondhi, owner of A.C. Sondhi & Associates, LLC, as a member of the Task Force representing the user constituency.

- The Task Force discussed the proposed codification of the guidance contained in EITF Issue No. 86-12, "Accounting by Insureds for Claims-Made Insurance Policies," EITF Issue No. 03-3, "Applicability of *EITF Abstracts* Topic No. D-79, 'Accounting for Retroactive Insurance Contracts Purchased by Entities Other Than Insurance Enterprises,' to Claims-Made Insurance Policies," and *EITF Abstracts*, Topic No. D-79, "Accounting for Retroactive Insurance Contracts Purchased by Entities Other Than Insurance Enterprises." The Task Force recommended revisions to the codification and the illustrative examples to clarify that the provisions of FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts*, are applicable to the arrangements described in the codification. The FASB staff plans to revise the codification and the illustrations accordingly and recirculate the codification to Task Force members for their review. Once finalized, the codification will be included in *EITF Abstracts* as EITF Issue No. 03-8, "Accounting for Claims-Made Insurance and Retroactive Insurance Contracts by the Insured Entity." Refer to discussion of Issue 03-8 elsewhere in these minutes.

- The Task Force discussed the report on the EITF Agenda Committee meeting. The following decisions and recommendations were made by the Agenda Committee:

a. Applying the Conditions in Paragraph 42 of FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, in Determining Whether to Report Discontinued Operations. The Agenda Committee decided to add this Issue to the EITF's agenda and suggested that the scope of the Issue should be based initially on the broad paragraph 42 criteria. In particular, the Agenda Committee suggested that the FASB staff employ an EITF working group to assist in the development of a model for evaluating (a) which cash flows are to be considered in determining whether *cash flows have been or will be eliminated* and (b) what types of continuing involvement constitute *significant continuing involvement*.

b. Subsequent Accounting for Energy Contracts Acquired in a Business Combination Initially Recorded at Fair Value. The Agenda Committee decided to add this Issue to the EITF's agenda. The Agenda Committee also noted that situations in which executory contracts may be recognized on a company's balance sheet are not limited to energy contracts or purchase business combinations and agreed that those other situations should be addressed in this Issue as well. The Agenda Committee agreed that the scope of the Issue should be limited to the subsequent accounting for executory contracts that have been recognized on a company's balance sheet and should not address the initial recognition or measurement of those contracts.

c. Accounting for Deferred Stripping Costs in the Mining Industry. The Agenda Committee decided ***not*** to add this issue to the EITF's agenda at this time. The Agenda Committee acknowledged that issues have arisen in practice with respect to a number of issues that are perceived to be unique to the mining industry. The Agenda Committee, with the consent of both of the FASB Board members who serve as members of the Agenda Committee, directed the FASB staff to convene a working group of mining industry specialists to develop an inventory of mining industry issues that are prevalent, that are not covered by existing authoritative literature, and that give rise to diversity in practice. That working group would then prepare a report for the Agenda Committee to use to determine which, if any, issues the EITF should consider. The Agenda Committee is, therefore, expected to discuss this Issue further at a future meeting. The Task Force Chairman also acknowledged the receipt of a letter, dated July 29, 2003, from the SEC staff regarding accounting and reporting issues in the extractive industries, an area that the SEC staff believes would benefit from further guidance by the FASB or EITF.

d. Application of EITF Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor," by Resellers to Sales Incentives Offered to Consumers by Manufacturers. The Agenda Committee decided to add this Issue to the EITF's agenda, and, because of the need for companies to begin to implement the consensuses reached in Issue 02-16, decided that this Issue should be considered by the Task Force at the July 31, 2003 EITF meeting. Refer to the discussion of EITF Issue No. 03-10, "Application of EITF Issue No. 02-16, 'Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor,' by Resellers to Sales Incentives Offered to Consumers by Manufacturers," elsewhere in these minutes.

e. EITF Issue No. 01-11, "Application of EITF Issue No. 00-19, 'Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock,' to a Contemporaneous Forward Purchase Contract and Written Put Option." The Agenda Committee recommended that this Issue be removed from the EITF's agenda as a result of the May 2003 issuance of FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. The Task Force did not object to the Agenda Committee's recommendation.

- An FASB staff representative announced that the staff will recommend that the Board address the measurement issue that was the subject of the FASB staff's observation related to EITF Issue No. 03-4, "Determining the Classification and Benefit Attribution Method for a 'Cash Balance' Pension Plan," as part of a Board project on the interpretation of FASB Statement No. 87, *Employers' Accounting for Pensions*. As a result, no further EITF discussion of Issue 03-4 is planned.

- An FASB staff representative announced the distribution to EITF members of the proposed updates to *EITF Abstracts* as a result of the issuance of FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, and indicated that the FASB staff intends to post the final updates to the FASB website prior to their publication in *EITF Abstracts*.

- An FASB staff representative announced that the FASB staff has decided not to issue an FASB Staff Position regarding a lessor's income statement classification of executory costs in "triple-net leases," and indicated that no further discussion of that Issue by the Agenda Committee is planned. Accordingly, the FASB staff and certain Task Force members acknowledged that diversity in practice will continue with respect to how those costs are classified in lessors' income statements.

- The following comment letters were reported as received (previously distributed to all Task Force members):

a. EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" (4 comment letters)[1]

b. EITF Issue No. 03-4, "Determining the Classification and Benefit Attribution Method for a 'Cash Balance' Pension Plan" (30 comment letters)[2]

c. EITF Issue No. 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128, *Earnings per Share*" (1 comment letter)[1]

d. EITF Issue No. 03-7, "Accounting for the Settlement of the Equity-Settled Portion of a Convertible Debt Instrument That Permits or Requires the Conversion Spread to Be Settled in Stock (Instrument C of EITF Issue No. 90-19, 'Convertible Bonds with Issuer Option to Settle for Cash upon Conversion')" (1 comment letter)[1]

e. EITF Issue No. 03-10, "Application of EITF Issue No. 02-16, 'Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor,' by Resellers to Sales Incentives Offered to Consumers by Manufacturers" (1 comment letter).[1]

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[1] Discussion of comment letters occurred during the discussion of the related Issue.
[2] Issue not on the agenda for the July 31, 2003 EITF meeting. See related discussion in "Administrative Matters."

Topic No. D-42

SEC Staff Announcement

Topic: Clarification of *EITF Abstracts*, Topic No. D-42, "The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock"

Date Discussed: July 31, 2003

The SEC Observer clarified that, for the purposes of applying Topic D-42 when calculating the excess of (1) the fair value of the consideration transferred to the holders of the preferred stock over (2) the carrying amount of the preferred stock in the registrant's balance sheet, the carrying amount of the preferred stock should be reduced by the issuance costs of the preferred stock, regardless of where in the stockholders' equity section those costs were initially classified on issuance. This clarification of Topic D-42 should be reflected retroactively in the financial statements for reporting periods ending after September 15, 2003, by restating the financial statements of prior periods in accordance with the provisions of paragraphs 27–30 of APB Opinion No. 20, *Accounting Changes*. Earlier application is encouraged. Although restatement of prior periods is required, this change is not considered the correction of an error and, therefore, previously issued financial reports do not need to be reissued.

The changes to Topic D-42 to effect this clarification are shown in marked text (additions are underscored). For convenience, Topic D-42 is included below in its entirety.

Topic No. D-42

Topic: The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock

Dates Discussed: January 20, 1994; November 17, 1994; September 11-12, 2002; <u>July 31, 2003</u>

The SEC Observer made the following announcement of the SEC staff's position on the effect on the calculation of earnings per share for the redemption or induced conversion of preferred stock.

The SEC staff has noted an increase in the number of registrants that are either redeeming outstanding shares of preferred stock for cash, other securities issued by the registrant, or other consideration or inducing the conversion of outstanding shares of preferred stock into other securities issued by the registrant.

The SEC staff has been asked whether the redemption or induced conversion of preferred stock would have an impact on the determination of net earnings available to common shareholders in the calculation of earnings per share.

If a registrant redeems its preferred stock, the SEC staff believes that the excess of (1) fair value of the consideration transferred to the holders of the preferred stock over (2) the carrying amount of the preferred stock in the registrant's balance sheet should be subtracted from net earnings to arrive at net earnings available to common shareholders in the calculation of earnings per share. The staff believes that the excess of the fair value of the consideration transferred to the holders of the preferred stock over the carrying amount of the preferred stock in the registrant's balance sheet represents a return to the preferred stockholder and, therefore, should be treated in a manner similar to the treatment of dividends paid to the holders of the preferred stock in the calculation of earnings per share. Dividends on preferred stocks are deducted from net earnings to arrive at net earnings available to common shareholders. (Likewise, an excess of the carrying amount of preferred stock over the fair value of the consideration transferred to the holders of the preferred stock would be added to net earnings to arrive at net earnings available to common shareholders.)

If convertible preferred stock is converted to other securities issued by the registrant pursuant to an inducement offer, the staff believes that the excess of (1) the fair value of all securities and other consideration transferred in the transaction by the registrant to the holders of the convertible preferred stock over (2) the fair value of securities issuable pursuant to the original conversion terms should be subtracted from net earnings to arrive at net earnings available to common shareholders in the calculation of earnings per share. Registrants should look to the guidance provided in FASB Statement No. 84, *Induced Conversions of Convertible Debt*, to determine whether the conversion of preferred stock is pursuant to an inducement offer.

The staff would expect registrants to comply with the staff's views on these transactions beginning with transactions, or offers of transactions, announced on or after January 20, 1994.

Subsequent Developments

At the November 17, 1994 meeting, the SEC Observer responded to an inquiry from a Task Force member concerning the SEC staff announcement above. The inquiry related to accounting for the redemption of an "in-the-money" convertible preferred stock (in other words, the underlying common stock appreciated since the date of issuance). The SEC Observer stated that the guidance in the above announcement covering redemptions of preferred stock applies to all classes of preferred stock and that the entire excess of the redemption amount over the carrying amount should be deducted from earnings available to common stockholders.

At the September 18-19, 1996 meeting, the SEC Observer made an announcement of the SEC staff's position on the computation of earnings per share for a period that includes a redemption or an induced conversion of a portion of a class of preferred stock. (See Topic D-53 for details of the announcement.)

At the September 11–12, 2002 meeting, the Task Force reached a consensus on Issue No. 02-15, "Determining Whether Certain Conversions of Convertible Debt to Equity Securities Are within the Scope of FASB Statement No. 84, *Induced Conversions of Convertible Debt,"* that Statement 84 applies to all conversions of convertible debt that (1) occur pursuant to changed conversion privileges that are exercisable only for a limited period of time and (2) include the issuance of all of the equity securities issuable pursuant to conversion privileges included in the terms of the debt at issuance for each debt instrument that is converted, regardless of the party that initiates the offer or whether the offer relates to *all* debt holders.

At the July 31, 2003 meeting, the SEC Observer clarified that for the purposes of calculating the excess of (1) the fair value of the consideration transferred to the holders of the preferred stock over (2) the carrying amount of the preferred stock in the registrant's balance sheet, the carrying amount of the preferred stock should be reduced by the issuance costs of the preferred stock, regardless of where in the stockholders' equity section those costs were initially classified on issuance. This clarification of Topic D-42 should be reflected retroactively in financial statements for reporting periods ending after September 15, 2003, by restating the financial statements of prior periods in accordance with the provisions of paragraphs 27–30 of APB Opinion No. 20, *Accounting Changes*. Earlier application is encouraged.

REVISIONS TO THE MINUTES OF THE MAY 15, 2003 MEETING

Issue No. 03-3

Title: Applicability of *EITF Abstracts*, Topic No. D-79, "Accounting for Retroactive Insurance Contracts Purchased by Entities Other Than Insurance Enterprises," to Claims-Made Insurance Policies

Date Discussed: July 31, 2003

An FASB staff member announced that a typographical error in the final minutes of the May 15, 2003 EITF meeting was discovered and corrected prior to the publication of this Issue in *EITF Abstracts*. The correction of that error in paragraph 5 of the minutes is as follows (the deletion is struck through):

> 5. The Task Force observed that paragraph 95 of Statement 113 states that "in claims-made insurance, the insured event is the reporting to the insurer, within the period specified by the policy, of a claim for a loss covered by the insurance contract." Accordingly, a prospective claims-made insurance policy only covers claims for losses reported to the insurer during the policy term, regardless of the occurrence date of those incidents that give rise to those claims. A retroactive provision provides coverage for "insured events" that occurred or were reportable prior to the policy term, that is, the policy covers claims for specific, known claims that were **~~not~~** reportable.

REVISIONS TO *EITF ABSTRACTS*

Issue No. 02-9

Title: Accounting for Changes That Result in a Transferor Regaining Control of Financial Assets Sold

Date Discussed: July 31, 2003

The Task Force agreed to the following revisions to the descriptions of the journal entries that result in the recombination of the retained beneficial interest with the reacquired loan under Scenarios A and C in Example 1 for Issue 1 of Exhibit 02-9A (deletions are struck through).

Scenario A

…

ROAP exercised by Transferor

…

Loans	$3	
Retained interest in qualifying SPE		$3

To reclassify Transferor's retained interest in the loan—which has been entirely reclaimed by Transferor through exercise of the ROAP—by combining that retained interest with the portion of the loan previously sold ($82), so that the entire loan is combined~~ and initially measured at its fair value ($85)~~.

Scenario C

…

ROAP exercised by Transferor

…

Loans	$8	
Retained interest in qualifying SPE		$8

To reclassify Transferor's retained interest in the loan—which has been entirely reclaimed by Transferor through exercise of the ROAP—by combining that retained interest with the portion of the loan previously sold ($82), such that the entire loan is combined~~ and accounted for at its fair value ($90)~~.

The changes clarify that the recombined loan will be accounted for as a loan at historical cost (the fair value of the retained beneficial interest plus the historical cost of the portion of the loan re-recognized when the ROAP became exercisable), which may or may not equal its fair value on the date of recombination. Therefore, the reference to fair value at the point of recombination is not relevant, as neither the retained beneficial interest nor the previously deemed-to-be-acquired loan is remeasured in connection with that recombination.

DISCUSSION OF AGENDA TECHNICAL ISSUES

Issue No. 03-1

Title: The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments

Dates Discussed: January 23, 2003; March 20, 2003; May 15, 2003; July 31, 2003

References: FASB Statement No. 7, *Accounting and Reporting by Development Stage Enterprises*

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

FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*

FASB Statement No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*

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

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

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

FASB Special Report, *A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities: Questions and Answers*

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

AICPA Practice Bulletin No. 6, *Amortization of Discounts on Certain Acquired Loans*

SEC Staff Accounting Bulletin No. 59, *Accounting for Noncurrent Marketable Equity Securities*

Issue

1. The issue is to determine the meaning of other-than-temporary impairment and its application to investments classified as either available-for-sale or held-to-maturity under Statement 115 (including individual securities and investments in mutual funds), and investments accounted for under the cost method or the equity method.

Prior EITF Discussion

2. EITF Issue No. 02-14, "Whether the Equity Method of Accounting Applies When an Investor Does Not Have an Investment in Voting Stock of an Investee but Exercises Significant Influence through Other Means," is a scope issue related to Opinion 18. In responding to that Issue, the FASB staff developed a view that recommended that the Task Force define *other-than-temporary* impairment and provide additional guidance on how other-than-temporary impairment should be applied to certain investments accounted for by the cost method under Opinion 18. At the September 11–12, 2002 EITF meeting, the Task Force requested that the FASB staff develop views regarding the meaning of other-than-temporary impairment and its application to certain investments carried at cost.

3. At the November 21, 2002 EITF meeting, the Task Force discussed the meaning of other-than-temporary impairment and its application to certain investments carried at cost. The Task Force requested that the FASB staff consider other impairment models within U.S. GAAP when developing its views. The Task Force also requested that the scope of the impairment issue be expanded to include equity method investments and investments subject to Statement 115, and that the issue be addressed by the Task Force separately from Issue 02-14.

4. At the January 23, 2003 EITF meeting, the Task Force noted that several complex issues surround the application of other-than-temporary impairment. In light of those complex issues, the Task Force requested that a working group be established to develop an approach for assessing other-than-temporary impairment that would be appropriate for different types of investments.

5. At the March 20, 2003 EITF meeting, the Task Force discussed proposed guidance for assessing other-than-temporary impairment that was recommended by the Working Group. That proposed guidance would apply to investments accounted for under the cost method or the equity method, investments classified as either available-for-sale or held-to-maturity under Statement 115 (including individual securities and mutual funds), and investments accounted for under Statement 124. It would not apply to investments within the scope of EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets." The proposed guidance includes the following:

Step 1: Determine whether an investment is impaired
Step 2: Determine whether an impairment is other than temporary
Step 3: Recognize an impairment loss equal to the difference between the investment's carrying amount and its fair value (measured as of the balance sheet date).

6. Step 1 of the proposed guidance generally states that an investment is considered impaired if its fair value is less than its amortized cost basis (hereinafter referred to as its carrying amount).

7. Step 2 of the proposed guidance includes the following underlying principle for determining whether an impairment is other than temporary: an impairment shall be deemed other than temporary unless positive evidence indicating that an investment's carrying amount is recoverable within a reasonable period of time outweighs negative evidence to the contrary. Under the proposed guidance, the longer the investment's fair value is below its carrying amount, the more unlikely it becomes that sufficient objective and verifiable positive evidence would be

available to support the recoverability of the investment's carrying value to overcome the extent of the negative evidence, except for certain investments with noncontingent contractual future cash flows. In attempting to clarify that notion, the model proposed at the March 20, 2003 EITF meeting included a rebuttable presumption that an impairment would be considered other-than-temporary after one year.

8. The Task Force generally supported the proposed guidance with respect to its application to equity securities but asked that the Working Group further refine some of the specific guidance within each of the steps of the impairment model. The Task Force also requested that the Working Group further explore the application of Step 2 of the proposed guidance to certain debt securities, including the impact of an investor's ability and/or intent to hold an investment when it is not probable that the investor will be unable to collect all amounts due according to the contractual terms of a debt security that was not impaired at acquisition and the decline in its fair value is due only to interest rate fluctuations.

9. The Task Force also requested that the Working Group further consider the accounting for the investment after an impairment is recognized under Step 3 of the proposed model, specifically focusing on investments accounted for under the equity method.

10. At the May 15, 2003 EITF meeting, the Task Force discussed additional Working Group recommendations regarding the refinement of the proposed guidance for assessing other-than-temporary impairment. The Task Force expressed concern over the applicability and feasibility of a single impairment model for all types of investments. Consequently, the Task Force directed the FASB staff to consider whether the characteristics of different types of investments (for example, Statement 115 available-for-sale equity securities, Statement 115 available-for-sale and held-to-maturity debt securities, and investments subject to Opinion 18) require different models for evaluating whether or when an impairment is considered other than temporary.

Current EITF Discussion

11. At the July 31, 2003 EITF meeting, the Task Force discussed separate impairment models proposed by the FASB staff for each of the following categories of investments: (a) Statement 115 and Statement 124 equity securities, (b) Statement 115 and Statement 124 debt securities, (c) cost method investments (that is, equity securities that are not subject to the scope of Statement 115 and not accounted for under the equity method), and (d) equity method investments. Those models were generally consistent with the three-step approach proposed at the March meeting with the following exceptions:

- Under the models for cost method investments and equity method investments without a readily determinable fair value, Step 1 was modified to include certain triggers for when an impairment test should be performed
- Under each of the models, Step 2 was tailored to the nature of the investment. For example, the proposed model for debt securities includes a consideration of the probability of collection of contractual cash flows.

12. The Task Force generally supported the underlying principles in each of the proposed impairment models for equity securities, debt securities, and cost method investments. However, the Task Force suggested further refinement to those models to, among other things:

a. Eliminate the rebuttable presumption that an impairment is considered other than temporary after a one-year period of impairment

b. Further emphasize the notion that the weight of evidence indicating an other-than-temporary impairment increases as the length of time that an investment's fair value is below its carrying amount increases and that, therefore, greater positive evidence will be required to conclude that an impairment is temporary as the duration of impairment increases

c. Require the investor to disclose in its financial statements information about unrealized holding losses that have not been recognized as other-than-temporary impairments. Some Task Force members suggested disclosures about the aging of those unrealized losses, and some suggested disclosures about the evidence supporting the conclusion that the investments to which those losses relate are not other-than-temporarily impaired.

13. In addition, the Task Force suggested that the proposed impairment model for debt securities be further refined to clarify the intent and operation of the considerations in the proposed model for determining other-than-temporary impairment for investments in debt securities with noncontingent contractual cash flows. In particular, the Task Force agreed on the general principle that impairments due to deterioration in credit that result in a conclusion that noncollection is probable should be considered other than temporary. Other declines in fair value (for example, due to interest rate changes, sector credit rating changes, or company-specific rating changes that do not result in a conclusion that noncollection of contractual principal and interest is probable) may not result in a conclusion that an other-than-temporary impairment has occurred, subject to the other considerations in the proposed model. Therefore, the Task Force asked the Working Group to further refine Step 2 of the model for debt securities to differentiate those securities for which noncollection is probable from those securities for which collection is probable but which, based on other considerations, may be considered other-than-temporarily impaired. The Task Force also requested that the Working Group develop further guidance for determining what constitutes "noncontingent contractual cash flows."

14. For cost method investments, because fair value is not readily determinable, the Task Force generally agreed that investments should be tested for impairment annually, or more frequently if certain indicators are present, rather than at each reporting date. However, certain Task Force members expressed concerns that because information necessary to estimate the fair value of a cost method investment may not be readily available to the investor, even limiting the impairment test to an annual evaluation may not be practical. Therefore, the FASB staff will explore an alternative model that would require an impairment test only when certain indicators are present.

15. The Task Force agreed to consider further development of an impairment model for the fourth category of investments discussed—equity method investments—after the impairment models for other types of investments have been further refined.

16. In addition, the Task Force requested that, as the other models are refined, the FASB staff consider further the implications of including within or excluding from the scope of this Issue (a) investments of not-for-profit organizations and (b) beneficial interests in transferred financial assets subject to the scope of Issue 99-20. Some Task Force members also requested clarification of the classification, for purposes of this Issue, of investments in mutual funds that invest in debt securities and suggested that the classification follow the guidance in Question 5 of the Special Report on Statement 115, which indicates that an investor should not "look through" the form of an investment to the underlying investments of the investment vehicle.

Status

17. Further discussion is expected at a future meeting.

Issue No. 03-5

Title: Applicability of AICPA Statement of Position 97-2, *Software Revenue Recognition*, to Non-Software Deliverables in an Arrangement Containing More-Than-Incidental Software

Dates Discussed: May 15, 2003; July 31, 2003

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

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

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

Issue

1. The issue is whether non-software deliverables included in an arrangement that contains software that is more than incidental to the products or services as a whole are included within the scope of SOP 97-2.

Prior EITF Discussion

2. At the May 15, 2003 EITF meeting, the Task Force reached the following consensus:

> In an arrangement that includes software that is more than incidental to the products or services as a whole, software and software-related elements are included within the scope of SOP 97-2. Software-related elements include software products and services such as those listed in paragraph 9 of SOP 97-2[1] as well as any non-software deliverable(s) for which a software deliverable is essential to its functionality. For example, in an arrangement that includes software, computer hardware that will contain the software, and additional unrelated equipment, if the software is essential to the functionality of the hardware, the hardware would be considered software-related and, therefore, included within the scope of SOP 97-2. However, because the software is not essential to the functionality of the unrelated equipment, the equipment would not be considered software-related and would, therefore, be excluded from the scope of SOP 97-2.

3. In reaching that consensus, the Task Force asked the FASB staff to refine the consensus guidance by utilizing the separation criteria in EITF Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables," to define *essential to the functionality*. During the process of drafting the minutes, it became apparent that Task Force members had differing views of the direction given to the FASB staff. As a result, the Board was not asked at the May 28, 2003 Board meeting to ratify the consensus reached by the Task Force.

Current EITF Discussion

4. At the July 31, 2003 EITF meeting, the Task Force affirmed the consensus reached at the May 15, 2003 EITF meeting without any further refinement to define *essential to the*

[1] As indicated in paragraph 9 of SOP 97-2, examples of software deliverables include software products, upgrades/enhancements, postcontract customer support, and services.

functionality. That is, the consensus language, as worded in the May 15, 2003 EITF meeting minutes, will remain unchanged.

Board Ratification

5. At its August 13, 2003 meeting, the Board ratified the consensus reached by the Task Force in this Issue.

Status

6. No further discussion is planned.

Issue No. 03-6

Title: Participating Securities and the Two-Class Method under FASB Statement No. 128, *Earnings per Share*

Dates Discussed: May 15, 2003; July 31, 2003

References: FASB Statement No. 107, *Disclosure about Fair Value of Financial Instruments*

FASB Statement No. 128, *Earnings per Share*

FASB Statement No. 129, *Disclosure of Information about Capital Structure*

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

Proposed FASB Statement, *Earnings per Share and Disclosure of Information about Capital Structure*, issued January 1996

APB Opinion No. 15, *Earnings per Share*

AICPA Accounting Interpretation 85, "EPS Treatment of Two-Class and Participating Securities," of APB Opinion No. 15

AICPA Accounting Interpretation 86, "Two-Class Method for Nonconvertible Securities," of APB Opinion No. 15

AICPA Accounting Interpretation 87, "Two-Class Method for Convertible Securities," of APB Opinion No. 15

Introduction

1. Statement 128 provides guidance on the calculation and disclosure of earnings per share (EPS). Statement 128 defines EPS as "the amount of earnings attributable to each share of common stock" and indicates that the objective of EPS is to measure the performance of an entity over the reporting period. In its deliberations of Statement 128, the Board decided to require the use of the two-class method of computing EPS for those enterprises with participating securities or multiple classes of common stock.

2. Paragraph 60(a) of Statement 128 provides the following description of participating securities:

> Securities that may participate in dividends with common stocks according to a predetermined formula (for example, two for one) with, at times, an upper limit on the extent of participation (for example, up to, but not beyond, a specified amount per share).

Paragraph 61 of Statement 128 adds the following:

> The if-converted method shall be used for those securities that are convertible into common stock if the effect is dilutive. For those securities that are not

convertible into a class of common stock, the "two class" method of computing earnings per share shall be used. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. Under that method:

a. Income from continuing operations (or net income) shall be reduced by the amount of dividends declared in the current period for each class of stock and by the contractual amount of dividends (or interest on participating income bonds) that must be paid for the current period (for example, unpaid cumulative dividends).[25]

b. The remaining earnings shall be allocated to common stock and participating securities to the extent that each security may share in earnings as if all of the earnings for the period had been distributed. The total earnings allocated to each security shall be determined by adding together the amount allocated for dividends and the amount allocated for a participation feature.

c. The total earnings allocated to each security shall be divided by the number of outstanding shares of the security to which the earnings are allocated to determine the earnings per share for the security.

d. Basic and diluted EPS data shall be presented for each class of common stock.

For the diluted EPS computation, outstanding common shares shall include all potential common shares assumed issued. Illustration 6 in Appendix C provides an example of that provision.

[25]Dividends declared in the current period do not include dividends declared in respect of prior-year unpaid cumulative dividends. Preferred dividends that are cumulative only if earned are deducted only to the extent that they are earned.

3. Subsequent to the issuance of Statement 128, the FASB staff issued *EITF Abstracts*, Topic No. D-95, "Effect of Participating Convertible Securities on the Computation of Basic Earnings per Share," to address the effect of participating convertible securities on the computation of basic EPS. Topic D-95 clarifies that participating securities that are convertible into common stock be included in the computation of basic EPS if the effect is dilutive. Topic D-95 states that the determination of how participating convertible securities should be included in the computation of basic EPS (that is, using either the if-converted method or the two-class method) is an accounting policy decision; however, the dilutive effect on basic EPS cannot be less than that which would result from the application of the two-class method that would be required if the same security were not convertible.

4. Consider the following example:

Company ABC has 10,000 shares of common stock and 5,000 shares of convertible preferred stock outstanding. Each share of preferred stock is convertible into one share of common stock. The preferred stock participates in any dividends on a 1:1 per share ratio with common stock. That is, the preferred stock receives dividends at a rate that results in a per share amount that is equivalent to the per share amount paid on common stock. Company ABC had net income of $50,000 for 20X3 and paid no dividends during 20X3. Company ABC has an accounting policy that preferred stock will be included in its computation of basic EPS using the if-converted method as long as the dilutive effect on basic EPS is at least as great as the effect of the two-class method.

Company ABC could not compute basic EPS excluding the convertible participating securities ($5.00 per share[1]), as the effect of the convertible preferred stock is dilutive. Instead, Company ABC would compute basic EPS using the if-converted method ($3.33 per share[2]), as the dilutive effect that would result from including the effect of the convertible preferred stock under the if-converted method is no less than that which would result from the application of the two-class method if the preferred stock were not convertible ($3.33 per share[3]).

---

[1] *Computation of basic EPS excluding the convertible preferred stock:*

$$\frac{\text{Net income available to common shareholders}}{\text{Outstanding shares}} = \text{Basic EPS}$$

$$\frac{\$50{,}000}{10{,}000 \text{ shares}} = \$5.00 \text{ per share}$$

[2] *Computation of basic EPS using if-converted method:*

$$\frac{\$50{,}000}{15{,}000 \text{ shares}} = \$3.33 \text{ per share}$$

Note: Conversion of the preferred stock results in 15,000 shares of common stock outstanding.

[3] *Computation of basic EPS using two-class method:*

$$\text{Undistributed 20X3 earnings} = \text{Net income} - \text{Dividends}$$

$$\$50{,}000 = \$50{,}000 - \$0$$

Allocation of undistributed earnings:

To common stock:

$$\frac{(10{,}000)}{[(5{,}000) + (10{,}000)]} \times \$50{,}000 = \$33{,}333$$

$$\frac{\$33{,}333}{10{,}000 \text{ shares}} = \$33{,}333$$

To preferred stock:

$$\frac{(5{,}000)}{[(5{,}000) + (10{,}000)]} \times \$50{,}000 = \$16{,}667$$

$$\frac{\$16{,}667}{5{,}000 \text{ shares}} = \$3.33 \text{ per share}$$

	Common	Preferred
Distributed earnings	$0.00	$0.00
Undistributed earnings	3.33	3.33
Totals	$3.33	$3.33

5. The Issues are:

Issue 1: Whether the two-class method requires the presentation of basic and diluted EPS for all participating securities.

Issue 1(a): If the two-class method does not require the presentation of basic and diluted EPS for all participating securities, when is the presentation of basic and diluted EPS appropriate.

Issue 2: How to define a participating security that requires application of paragraph 61 of Statement 128.

Issue 2(a): Whether all potential common shares, that is, securities or other contracts that may entitle their holders to obtain common stock (such as options, warrants, forwards, convertible debt, and convertible preferred stock), may be participating securities.

Issue 2(b): Whether dividends or dividend equivalents paid to the holder of a convertible participating security that are applied to either reduce the conversion price or increase the conversion ratio of the security represent participation rights.

Issue 3: How undistributed earnings should be allocated to a participating security.

Issue 4: Whether an entity that allocated undistributed earnings to a nonconvertible participating security would continue to do so in a period of net loss if the effect is antidilutive.

Issue 5: Whether a convertible participating security would be excluded from the computation of basic EPS if an entity has a net loss from continuing operations.

Issue 6: How a convertible participating security is included in the computation of diluted EPS.

Prior EITF Discussion

6. At the May 15, 2003 EITF meeting, the Task Force discussed those issues, but was not asked to reach a consensus. Members of the Task Force requested that the FASB staff organize an advisory group that would explore the Issue further and create a revised Issue Summary for discussion at a future meeting. The Task Force requested that the advisory group specifically address conditions under which a participating security requires (a) the use of the two-class method, (b) an adjustment to earnings available to common shareholders, or (c) disclosure in accordance with Statement 129. The Task Force requested that the advisory group provide specific examples of securities for which participation may be ambiguous or for which participation rights are contingent (for example, a warrant with an exercise price that changes based on dividends).

Current EITF Discussion

7. At the July 31, 2003 EITF meeting, the Task Force reached a tentative conclusion on Issue 1 that the two-class method is an earnings allocation formula that treats a participating security as having rights to earnings that otherwise would have been available to common shareholders, but does not require the presentation of basic and diluted EPS for securities other than common stock. However, the Task Force observed that the presentation of basic and diluted EPS for a participating security other than common stock is not precluded.

8. The Task Force decided to discontinue its discussion on Issue 1(a), noting that although the presentation of basic and diluted EPS for a participating security other than a class of common stock may be desirable in some cases, it is not required by Statement 128.

9. The Task Force reached a tentative conclusion on Issue 2 that, for purposes of applying paragraphs 60 and 61 of Statement 128, a participating security is a security that may participate in undistributed earnings with common stock, whether that participation is conditioned upon the occurrence of a specified event or not. The Task Force observed that the form of such participation does not have to be a dividend—that is, any form of participation in undistributed earnings would constitute participation by that security, regardless of whether the payment to the security holder was referred to as a dividend.

10. The Task Force discussed but was not asked to reach a consensus on Issue 2(a). Some Task Force members noted a preference for the view that a potential common share that has a current right to participate in earnings would be a participating security and that basic and diluted EPS should be calculated as the more dilutive of the two-class method or the method prescribed by Statement 128 or related authoritative guidance (for example, the treasury stock method or the reverse treasury stock method). The Task Force asked the FASB staff to further explore Issue 2(a) with the Advisory Group and prepare examples for discussion at a future meeting.

11. The Task Force discussed but was not asked to reach a consensus on Issue 3. However, the Task Force generally preferred the view that undistributed earnings for a period should be allocated to a participating security based on the <u>contractual</u> participation rights of the security to share in those current earnings. If the terms of a security do not specify objectively determinable, nondiscretionary participation rights, then undistributed earnings would not be allocated based on arbitrary assumptions. Also, if an entity could avoid distributions of undistributed earnings to participating security holders, then no allocation of that period's earnings to the participating security would be made. Participation rights that are contingent on or subject to the discretion of the company should be fully disclosed in accordance with paragraph 4 of Statement 129.

12. The Task Force reached a tentative conclusion on Issue 4 that an entity would continue to allocate undistributed earnings/losses to a nonconvertible participating security in periods of net loss even if the effect is antidilutive. The Task Force observed that losses that reduce the undistributed earnings in which a participating security has a right to share should be allocated to that participating security.

13. The Task Force did not discuss Issues 2(b), 5, or 6 but plans to discuss those issues at a future meeting. The Task Force also asked the staff to develop alternative views, for discussion at a future meeting, as to how EPS calculations would be affected by participation features that take the form of a derivative that is marked to market through the income statement in accordance with authoritative guidance such as Statement 133.

Status

14. Further discussion is expected at a future meeting.

Issue No. 03-7

Title: Accounting for the Settlement of the Equity-Settled Portion of a Convertible Debt Instrument That Permits or Requires the Conversion Spread to Be Settled in Stock (Instrument C of EITF Issue No. 90-19, "Convertible Bonds with Issuer Option to Settle for Cash upon Conversion")

Date Discussed: July 31, 2003

References: FASB Statement No. 84, *Induced Conversions of Convertible Debt*

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

FASB Statement No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*

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

FASB Statement No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*

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

FASB Technical Bulletin No. 80-1, *Early Extinguishment of Debt through Exchange for Common or Preferred Stock*

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

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

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

AICPA Accounting Interpretation 1, "Early Extinguishment of Debt," of APB Opinion No. 26

Introduction

1. EITF Issue No. 90-19, "Convertible Bonds with Issuer Option to Settle for Cash upon Conversion," addresses the accounting for all convertible bonds with characteristics of Instruments A, B, or C as described in that Issue.[1] Specifically, the issues addressed in Issue 90-19 are:

[1] Instrument A: Upon conversion, the issuer must satisfy the obligation entirely in cash based on the fixed number of shares multiplied by the stock price on the date of conversion (the conversion value).

Instrument B: Upon conversion, the issuer may satisfy the entire obligation in either stock or cash equivalent to the conversion value.

Instrument C: Upon conversion, the issuer must satisfy the accreted value of the obligation (the amount accrued to the benefit of the holder exclusive of the conversion spread) in cash and may satisfy the conversion spread (the excess conversion value over the accreted value) in either cash or stock.

1. Whether the initial balance sheet treatment by the issuer should provide for separate or combined accounting for the conversion feature and debt obligation
2. How the issuer should account for the excess conversion spread over the accreted value
3. How each instrument should be treated in earnings-per-share computations.

2. The Task Force reached a consensus on Issue 1 that combined accounting for the conversion feature and debt obligation is appropriate for Instrument C. On Issue 2, the Task Force reached a consensus that Instrument C "should be accounted for *similarly to indexed debt obligations*" (emphasis added). That is, the issuer should adjust the carrying amount of the instrument in each reporting period to the higher of the current stock price or the accreted value of the instrument. The Task Force reconsidered that consensus guidance for Instrument C at the January 23-24, 2002 EITF meeting to reflect the effect of the consensus guidance in EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock." Issue 00-19 addresses how freestanding derivative financial instruments that are indexed to, and potentially settled in, a company's own stock should be classified and measured by the company.

3. At the January 23-24, 2002 EITF meeting the Task Force revised the prior consensuses on Issues 1 and 2 of Issue 90-19 that Instrument C should be accounted for like convertible debt if the conversion spread meets the requirements of Issue 00-19 for classification within permanent equity. Paragraph 4 of Issue 00-19 discusses the Task Force consensus:

> …for purposes of evaluating under Statement 133 whether an embedded derivative indexed to a company's own stock would be classified in stockholders' equity if freestanding, the requirements of paragraphs 12–32 of [Issue 00-19] do not apply if the hybrid contract is a conventional convertible debt instrument in which the holder may only realize the value of the conversion option by exercising the option and receiving the entire proceeds in a fixed number of shares or the equivalent amount of cash (at the discretion of the issuer).

4. The Task Force also observed that the requirements of paragraphs 12–32 of Issue 00-19 apply when an issuer is evaluating whether any other embedded derivative instrument is an equity instrument and thereby excluded from the scope of Statement 133. The January 23-24, 2002 EITF meeting minutes for Issue 90-19 explain that because the features of Instrument C are sufficiently different from *conventional* convertible debt, paragraphs 12–32 of Issue 00-19 should be applied in determining whether the conversion feature meets the criteria for classification as permanent equity. If the conversion feature does not meet those criteria, Instrument C should be bifurcated by the issuer and the bifurcated derivative (that is, the conversion feature) should be marked to market under the provisions of Statement 133.

5. While the Issue 90-19 consensus, as revised, provides guidance for the accounting for Instrument C at issuance, Issue 90-19 does not address the accounting at settlement for Instrument C, and questions have arisen in practice about the accounting for the excess of the conversion spread over the accreted value of the obligation at settlement. Current accounting guidance for convertible debt (for example, Opinion 14, Opinion 26, Statement 84, and EITF

Issues No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios," and No. 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments") also does not specifically address the settlement accounting for Instrument C of Issue 90-19. Therefore, this Issue addresses how the issuer should account at settlement for Instrument C in Issue 90-19 if the issuer settles the conversion spread in stock. If settled in cash, the issuer would record a gain or loss based on the total cash consideration compared with the carrying amount of the debt. This Issue assumes that the embedded conversion feature meets the criteria in paragraphs 12-32 of Issue 00-19 for classification within permanent equity. If it did not meet those criteria, this Issue would not arise because the embedded conversion feature would be bifurcated from the debt host as a separate liability and accounted for as a derivative.

Issue

6. The issue is how the issuer should account for the partial cash-based and partial stock-based settlement of a debt instrument structured in the form of Instrument C as described in Issue 90-19.

Current EITF Discussion

7. At the July 31, 2003 EITF meeting, the Task Force reached a consensus that upon settlement of a security with the characteristics of Instrument C in Issue 90-19 by payment of the accreted value of the obligation (recognized liability) in cash and settlement of the conversion spread (unrecognized equity instrument) with stock, only the cash payment should be considered in the computation of gain or loss on extinguishment of the recognized liability. That is, any shares transferred to settle the *embedded equity instrument* (referred to as the excess conversion spread in Issue 90-19) would not be considered in the settlement of the debt component.

Transition

8. This consensus is effective for settlement transactions entered into on or after the beginning of an entity's next reporting period beginning after August 13, 2003.

Board Ratification

9. At its August 13, 2003 meeting, the Board ratified the consensus reached by the Task Force in this Issue.

Status

10. No further EITF discussion is planned.

Issue No. 03-8

Title: Accounting for Claims-Made Insurance and Retroactive Insurance Contracts by the Insured Entity

Date Discussed: July 31, 2003

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

FASB Statement No. 113, *Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts*

FASB Interpretation No. 14, *Reasonable Estimation of the Amount of a Loss*

FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts*

AICPA Audit and Accounting Guide, *Health Care Organizations*

AICPA Statement of Position 87-1, *Accounting for Asserted and Unasserted Medical Malpractice Claims of Health Care Providers and Related Issues*

Report of the AICPA AcSEC Task Force on Disclosure of Insurance, *Disclosure Concerning Insurance Coverage*, issued July 1987

Introduction

1. EITF Issue No. 86-12, "Accounting by Insureds for Claims-Made Insurance Policies," EITF Issue No. 03-3, "Applicability of *EITF Abstracts*, Topic No. D-79, 'Accounting for Retroactive Insurance Contracts Purchased by Entities Other Than Insurance Enterprises' to Claims-Made Insurance Policies," and Topic D-79 address various aspects of the accounting for retroactive insurance contracts and claims-made insurance policies by an insured entity, including an insurance entity that purchases insurance unrelated to its core insurance operations. The purpose of this Issue is to codify the guidance set forth in those pronouncements. The codification process entailed the unification of previous abstracts for the related Issues.

Current EITF Discussion

2. At the July 31, 2003 EITF meeting, the Task Force reached a consensus that:

- The guidance in Topic D-79 should be re-characterized as a Task Force consensus.
- The consensuses reached on Issues 4 and 5 of Issue 86-12 should be consolidated into one issue (Issue 4(a)) in order to simplify the codification.
- Passages and examples from Issue Summary No. 2 of Issue 86-12, dated May 22, 1986, should be incorporated into the codification in order to clarify the intent of the original consensuses reached on Issue 86-12.
- The consensuses reached on Issues 4, 5, and 6 of Issue 86-12 (which will be codified as Issues 4(a) and 4(b)) and the related illustrative examples should be updated to be compliant with the guidance contained in paragraph 4 of Interpretation 39 that a liability recognized

for claims incurred but not reported (IBNR) should not be offset against prepaid insurance. Further, Interpretation 39 would preclude an entity from offsetting a liability for a reported claim with an insurance recoverable related to that reported claim.

- The phrase *pro-rata* as used in Issue 86-12 implies that the adjustment of an IBNR liability should be calculated based on the manner in which that liability is incurred, while insurance premiums should be amortized based on the manner in which those benefits are consumed.

- The relevant excerpts of the disclosures encouraged by the Report of the AICPA Task Force on Disclosure of Insurance should be incorporated into the codification as suggested disclosures relating to insurance arrangements for noninsurance entities.

3. The proposed codification will be revised pursuant to the Task Force's instruction and included in *EITF Abstracts* when finalized.

Transition

4. The Task Force observed that the transition guidance for the codification of Issue 86-12, Issue 03-3, and Topic D-79 is governed by the original consensuses on those Issues.

Status

5. No further EITF discussion is planned.

Issue No. 03-9

Title: Evaluating the Criteria in Paragraph 11(d) of FASB Statement No. 142, *Goodwill and Other Intangible Assets*, Regarding Renewal or Extension When Determining the Useful Life of an Intangible Asset

Date Discussed: July 31, 2003

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

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

Introduction

1. The useful life of an intangible asset is defined in Appendix F of Statement 142 as follows:

> The period over which an asset is expected to contribute directly or indirectly to future cash flows.

2. Paragraph 11 of Statement 142 provides the following guidance for estimating the useful life of an intangible asset:

> The accounting for a recognized intangible asset is based on its useful life to the reporting entity. An intangible asset with a finite useful life is amortized; an intangible asset with an indefinite useful life is not amortized. The useful life of an intangible asset to an entity is the period over which the asset is expected to contribute directly or indirectly to the future cash flows of that entity.[9] The estimate of the useful life of an intangible asset to an entity shall be based on an analysis of all pertinent factors, in particular:
>
> a. The expected use of the asset by the entity
> b. The expected useful life of another asset or a group of assets to which the useful life of the intangible asset may relate (such as mineral rights to depleting assets)
> c. Any legal, regulatory, or contractual provisions that may limit the useful life
> d. Any legal, regulatory, or contractual provisions that enable renewal or extension of the asset's legal or contractual life without substantial cost (provided there is evidence to support renewal or extension and renewal or extension can be accomplished without material modifications of the existing terms and conditions)
> e. The effects of obsolescence, demand, competition, and other economic factors (such as the stability of the industry, known technological advances, legislative action that results in an uncertain or changing regulatory environment, and expected changes in distribution channels)
> f. The level of maintenance expenditures required to obtain the expected future cash flows from the asset (for example, a material level of required

maintenance in relation to the carrying amount of the asset may suggest a very limited useful life).[10]

If no legal, regulatory, contractual, competitive, economic, or other factors limit the useful life of an intangible asset to the reporting entity, the useful life of the asset shall be considered to be indefinite. The term *indefinite* does not mean infinite. Appendix A includes illustrative examples of different intangible assets and how they should be accounted for in accordance with this Statement, including determining whether the useful life of an intangible asset is indefinite.

[9] The useful life of an intangible asset shall reflect the period over which it will contribute to the cash flows of the reporting entity, not the period of time that it would take that entity to internally develop an intangible asset that would provide similar benefits.

[10] As in determining the useful life of depreciable tangible assets, regular maintenance may be assumed but enhancements may not.

3. In applying the guidance in paragraph 11, questions have arisen in practice as to how the pertinent factors in paragraph 11(d) should be interpreted and applied. In particular, those questions surround the evaluation of "substantial cost" and "material modifications" in determining whether or not an intangible asset has an indefinite useful life and, if not, the appropriate useful life for the intangible asset. Statement 142 provides only limited guidance on how to apply those concepts—by way of illustrative examples and some discussion in its basis for conclusions.

4. The concepts of *useful life* and *fair value* of an intangible asset, from an economic standpoint, are inextricably linked. Statement 141 and Statement 142 both indicate that the useful life of an intangible asset is related to the period over which the asset is expected to generate cash flows. In some cases, however, the guidance in Statement 142 regarding *useful life* appears to be more restrictive than the guidance provided in Statement 141 with respect to considering the period over which an intangible asset is likely to contribute to an entity's cash flows for the purpose of determining the intangible asset's fair value.

5. On the one hand, paragraph B46 of Statement 142 indicates that the useful life of an intangible asset that is based on legal or contractual rights is constrained by the duration of those legal or contractual rights. Therefore, the useful life cannot extend beyond the expiration of the legal rights. However, the Board also acknowledged, in paragraph B47, that certain intangible assets may be routinely renewed at little or no cost (that is, without substantial cost) and that marketplace transactions often indicate that renewal is implied in the value of certain intangible assets. For those types of assets, the useful life is not necessarily limited to the legal or contractual life. On the other hand, the guidance in paragraph B174 of Statement 141 (in the context of initial recognition of intangible assets) appears to permit, or perhaps even require, a more expansive view of useful life of an intangible asset by indicating that judgment is required in determining the period over which cash flows should be expected for purposes of determining the fair value of an intangible asset. Estimates should incorporate assumptions that marketplace participants would use in making estimates of fair value, such as assumptions about future contract renewals. In cases where contractual or legal rights are routinely renewed, estimates of future cash flows should extend beyond the remaining contractual or legal term. Statement 141

does not limit the consideration of renewal to only those cases in which renewal can be effected with little or no cost.

6. The relevant examples in Appendix A of Statement 142 (Examples 4–6) provide only limited insight into this question because the examples assume that minimal costs are involved in renewal and that there will be no change to the terms of the arrangements. Furthermore, those examples generally illustrate the distinction between assets with a finite life limited to the contractual period and those with an indefinite life. There is no illustration of how to evaluate situations in which the life may be greater than the contractual life but not indefinite. Because many contractual arrangements or legal rights may be renewed, the issue of determining when such renewal is deemed to occur "without substantial cost" or "without material modification to the terms and conditions" is particularly relevant in assessing the useful life and, in turn, the fair value of intangible assets.

7. In addressing those issues, the FASB staff noted that it is important to consider the interaction of paragraphs 11(c) and 11(d) of Statement 142. Paragraph 11(c) requires consideration of legal or contractual *limits* to the useful life of an intangible asset, whereas paragraph 11(d) addresses situations in which the existing terms and conditions underlying the intangible asset *enable* renewal of the right giving rise to the intangible asset and that, *provided that evidence of renewal exists*, warrant consideration of a useful life that is greater than the existing contractual or legal life. Specifically, whether the *substantial cost* or *material modification* questions will need to be considered is only relevant if evidence of renewal exists.

Issue

8. The issues are:

Issue 1—When considering whether renewal of a contractual or legal right giving rise to an intangible asset requires "substantial cost" pursuant to paragraph 11(d) of Statement 142, the expenditures that should be considered to be a "cost" of the renewal or extension

Issue 2—When analyzing the pertinent factors contained in paragraph 11(d) of Statement 142, the "existing terms and conditions" that may be subject to change upon renewal or extension that are subject to the "material modifications" consideration.

Current EITF Discussion

9. At the July 31, 2003 EITF meeting, the Task Force discussed Issue 1 and generally agreed that the analysis of whether the useful life of an intangible asset should extend beyond its contractual term should be based on assumptions of renewal or nonrenewal that are consistent with assumptions of marketplace participants. The Task Force noted that the useful life—the period over which an intangible asset is expected to contribute to an entity's cash flows—for amortization purposes should be consistent with the estimated useful life considerations used in the determination of the fair value of that asset.

10. Task Force members noted that, in many cases, the fair value of the intangible asset is determined using probability-weighted expected future cash flows and, therefore, it may be difficult to discern a single point estimate for the useful life for amortization purposes. Some

Task Force members also observed that it also may be difficult to differentiate an intangible asset with a relatively long, but *finite*, life from an intangible asset with an *indefinite* life. In the course of that discussion, some Task Force members also noted that linking the amortization period to the estimated useful life considerations used in the valuation model may indicate that straight-line amortization does not best reflect the pattern in which the economic benefits of the intangible asset are consumed. The Task Force directed the FASB staff to further explore these issues for discussion at a future meeting.

11. The Task Force did not discuss Issue 2.

Status

12. Further discussion is expected at a future meeting.

Issue No. 03-10

Title: Application of EITF Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor," by Resellers to Sales Incentives Offered to Consumers by Manufacturers

Date Discussed: July 31, 2003

Introduction

1. Under Issue 1 of EITF Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor," cash consideration received by a customer from a vendor is presumed to be a reduction of the prices of the vendor's products or services and should, therefore, be characterized as a reduction of cost of sales when recognized in the customer's income statement. However, that presumption is overcome when the consideration is either (a) a payment for assets or services delivered to the vendor, in which case the cash consideration should be characterized as revenue (or other income, as appropriate) when recognized in the customer's income statement, or (b) a reimbursement of costs incurred by the customer to sell the vendor's products, in which case the cash consideration should be characterized as a reduction of that cost when recognized in the customer's income statement.

2. Manufacturers often sell their products to resellers who then sell those products to consumers or other end users. In some cases, manufacturers will offer sales discounts and incentives directly to consumers—for example, rebates or coupons—in order to stimulate consumer demand for their products. Because the reseller has direct contact with the consumer, the reseller may agree to accept, at the point of sale to the consumer, the manufacturer's incentives that are tendered by the consumer (for example, honoring manufacturer's coupons as a reduction to the price paid by consumers and then seeking reimbursement from the manufacturer). In other instances the consumer purchases the product from the reseller but deals directly with the manufacturer related to the manufacturer's incentive or discount (for example, a mail-in rebate).

3. Although the reseller often benefits from the vendor's direct-to-consumer incentives as a result of increased sales volume, the reseller generally has no control over which consumers or consumer groups participate in the incentive programs. Because the manufacturer reimburses the reseller for the value of the discount provided to the consumer, the reseller's gross margin on the product is the same regardless of whether or not the consumer purchases the product with the manufacturer's incentive.

4. The following example is used to illustrate the issue presented:

> Manufacturer sells cereal to Reseller for distribution to consumers. Manufacturer charges Reseller $3.00 per box. Reseller offers the product to consumers at a price of $4.00. Manufacturer also offers coupons to consumers, and those coupons are distributed weekly in the newspaper. The coupons offer a 50-cent discount on the purchase of a box of cereal.

When a consumer purchases cereal without the coupon, the Reseller receives $4.00 from the consumer. If a consumer tenders a coupon when purchasing the cereal, the Reseller receives $3.50 from the consumer; the Reseller then remits the coupons to a clearinghouse that handles the Manufacturer's coupons and receives 50-cents for each coupon (exclusive of any handling fee.)

Issue

5. The issue is whether consideration received by a reseller from a vendor that is a reimbursement by the vendor for honoring the vendor's sales incentives offered directly to consumers should be recorded as a reduction of the cost of the reseller's purchases from the vendor and, therefore, characterized as a reduction of cost of sales under the guidance in Issue 02-16. For purposes of this issue, the term *vendor's sales incentive offered directly to consumers* is limited to a vendor's incentive (a) that can be tendered by a consumer at any reseller in partial payment of the price charged by the reseller for the vendor's product, (b) for which the reseller receives a direct reimbursement from the vendor (or a clearinghouse authorized by the vendor) based on the face amount of the incentive, (c) that is not part of a broader vendor-reseller-specific incentive program or cooperative promotional program, and (d) whereby the reseller is subject to an agency relationship with the vendor, whether expressed or implied, in the sales incentive transaction between the vendor and the consumer.

Current EITF Discussion

6. At the July 31, 2003 EITF meeting, the Task Force reached a tentative conclusion that sales incentive arrangements that meet all of the criteria described in paragraph 5 are not subject to the guidance in Issue 02-16. Accordingly, in the example provided in paragraph 4, Reseller would record revenues of $4.00 and cost of sales of $3.00 in accounting for that sale transaction. Sales incentives that do not meet all of the criteria in paragraph 5 are subject to the guidance in EITF Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)," and Issue 02-16, as applicable. Recognizing the possible administrative burden on resellers of segregating one particular form of sales incentive for separate accounting, the Task Force agreed to permit resellers to report the value of the consideration received for all sales incentive arrangements involving the vendor as a reduction of cost of sales, including the arrangements that meet the criteria in paragraph 5 of this Issue. Therefore, the Task Force also tentatively concluded that disclosure of a company's accounting policy with respect to vendors' sales incentive arrangements should be required.

7. The Task Force agreed to develop a draft abstract reflecting this tentative conclusion to be posted to the FASB website for review and comment.

Transition

8. The Task Force preliminarily agreed that the tentative conclusion reached in this Issue would be applied to the accounting for sales incentives tendered by consumers in fiscal years beginning after December 15, 2003. Early application of the tentative conclusion would not be permitted. Reclassification of financial statements for prior periods presented for comparative purposes would not be permitted.

Status

9. Further discussion is expected at a future meeting.

Issue No. 03-11

Title: Reporting Realized Gains and Losses on Derivative Instruments That Are Subject to FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and Not "Held for Trading Purposes" as Defined in EITF Issue No. 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities"

Date Discussed: July 31, 2003

References: FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*

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

FASB Statement No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*

FASB Statement No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*

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

Statement 133 Implementation Issue No. B15, "Separate Accounting for Multiple Derivative Features Embedded in a Single Hybrid Instrument"

Statement 133 Implementation Issue No. C12, "Interpreting the Normal Purchases and Normal Sales Exception as an Election"

Statement 133 Implementation Issue No. G2, "Hedged Transactions That Arise from Gross Settlement of a Derivative ('All-in-One' Hedges)"

Statement 133 Implementation Issue No. K4, "Income Statement Classification of Hedge Ineffectiveness and the Component of a Derivative's Gain or Loss Excluded from the Assessment of Hedge Effectiveness"

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

AICPA Accounting Research Bulletin No. 43, *Restatement and Revision of Accounting Research Bulletins*

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

Introduction

1. At the October 25, 2002 EITF meeting, the Task Force discussed the income statement presentation of gains and losses on contracts held for trading purposes in EITF Issue No. 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities." The Task Force reached a consensus that gains and losses (realized and unrealized) on *all* derivative instruments within the scope of Statement 133 should be shown net when recognized in the income

statement, whether or not settled physically, if the derivative instruments are *held for trading purposes* as defined in Issue 02-3. The FASB staff subsequently clarified that the designation of derivatives as held for trading purposes is not intended to preclude those derivatives from being designated as hedging instruments if all of the applicable criteria in Statement 133 have been met.

2. The following example illustrates net and gross presentation of the realized gains and losses on a derivative instrument that is physically settled based on the specified fact pattern:

Example

On January 1, 20X3, a company enters into a forward contract to purchase one barrel of crude oil at $30 for delivery on July 1, 20X3. The forward contract is a derivative pursuant to Statement 133, the company does not elect to designate the contract as "normal purchases and normal sales" pursuant to paragraph 10(b) of Statement 133 and related Implementation Issues, and it designates the derivative instrument as "held for trading purposes." Assume the following market forward prices for the July 1, 20X3 delivery of one barrel of crude on the following dates:

March 31, 20X3	$25
June 30, 20X3	$35
July 1, 20X3 (delivery date)	$35

Further assume that the company sells the barrel of crude, purchased by physically settling the forward contract, on July 31, 20X3, for $37.

Journal Entries for Net Presentation

March 31, 20X3		
Trading revenue, net	$5	
Derivative liability		$5
June 30, 20X3		
Derivative liability	$5	
Derivative asset	$5	
Trading revenue, net		$10
July 1, 20X3		
Inventory	$35	
Cash (forward contract price)		$30
Derivative asset		$5
July 31, 20X3		
Accounts receivable	$37	
Inventory		$35
Trading revenue, net		$2

Journal Entries for Gross Presentation

A "gross" presentation would yield the same entries as of March 31, June 30, and July 1 (although the account descriptions may differ), but would differ as of July 31, as follows:

July 31, 20X3		
Cost of sales	$35	
Inventory		$35
Accounts receivable	$37	
Sales		$37

Under a "gross" presentation of the gains and losses on a derivative that is physically settled, the income statement, if presenting only the series of transactions presented in this example, would show sales of $37 and cost of sales of $35.

3. The above example presents two methods of recognizing the realized gains and losses from a physically settled derivative that is not designated as a hedging instrument. Now, assume that the forward contract presented above is designated as the hedging instrument in a cash flow hedge of the variability of the consideration to be paid in the forecasted purchase that will occur upon physical settlement of the forward contract itself. That is, the forward contract is designated as the hedging instrument in an "all-in-one" hedge pursuant to Implementation Issue G-2.

All-in-One Hedge Example

Assume the same facts as presented in the previous example. Additionally, assume that (a) the contract includes a disincentive for nonperformance that is sufficiently large to make performance probable (that is, the contract meets the definition of a firm commitment under Statement 133), (b) the company designates the forward purchase contract as a hedge of the variability in cash flows attributable to the price risk associated with the forecasted purchase of one barrel of oil under the contract, and (c) the company documents at inception of the hedge that the assessment of hedge effectiveness will be determined based on changes in the entire fair value of the derivative instrument (the forward contract).

Journal Entries for All-in-One Hedge

March 31, 20X3		
Other comprehensive income	$5	
Derivative liability		$5
June 30, 20X3		
Derivative liability	$5	
Derivative asset	$5	
Other comprehensive income		$10

July 1, 20X3		
Inventory	$35	
Cash (forward contract price)		$30
Derivative asset		$5
July 31, 20X3		
Cost of sales*	$30	
Other comprehensive income	$5	
Inventory		$35
Accounts receivable	$37	
Sales*		$37

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* Assumes a "gross" presentation. If using a "net" presentation, these entries would be netted in one revenue line item.

4. Statement 133 does not provide guidance on the appropriate level of income statement summarization of a derivative's realized gains and losses. Further, in Issue 02-3, the Task Force did not address the issue of whether gains and losses (realized and unrealized) should be shown gross or net in the income statement for contracts that are not held for trading purposes but are derivatives subject to Statement 133. Currently, practitioners use the guidance in EITF Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent," for determining how to summarize gains and losses realized upon physical settlement of a derivative contract. In that Issue, the Task Force reached a consensus that "whether a company should recognize revenue based on (a) the gross amount billed to a customer because it has earned revenue from the sale of the goods or services or (b) the net amount retained (that is, the amount billed to the customer less the amount paid to a supplier) because it has earned a commission or fee is a matter of judgment that depends on the relevant facts and circumstances…." The consensus provides factors or indicators to consider in making that evaluation.

5. Application of the factors or indicators provided in the consensus to Issue 99-19 usually results in reporting gains and losses on a gross basis when the derivative contract is physically settled. However, the results of applying the factors or indicators in Issue 99-19 may not result in an income statement presentation that, in all cases, is consistent with the underlying economics. Consider the following example of a "barrel back" arrangement:

"Barrel Back" Example

OilCo is an oil and gas producer with operations in California and Oklahoma. OilCo has entered into an agreement, termed a "barrel back," with a California refiner, whereby OilCo agrees to deliver a fixed quantity of its California production to the refiner. In exchange, the refiner agrees to deliver a fixed quantity of oil to OilCo in Cushing, Oklahoma. To maximize pricing, OilCo stores the oil in Cushing until the oil is ultimately sold to a third party. Assume the following facts:

- OilCo has no trading activities and has determined that the related derivative instrument is not held for trading purposes.
- The agreement between OilCo and the refiner meets the definition of a derivative pursuant to Statement 133.
- The normal purchases and normal sales exception in paragraph 10(b) of Statement 133 does not apply or has not been elected.[1]
- The factors in Issue 99-19 indicate gross reporting for the "barrel back" and the third-party sale.

6. The derivative in the above example is a compound derivative (combination of two forward contracts) and, based on paragraph 18 of Statement 133 (and Implementation Issue B15), cannot be separated into components that would be accounted for separately.

7. Although the "barrel back" is settled by physical delivery of the underlying asset and the factors in Issue 99-19 indicate "gross" reporting, a question arises as to whether this transaction should instead be reported on a net basis in the income statement. Although the transaction may have been executed for valid business purposes, the arrangement *resembles* a "roundtrip" (the sale of oil to the refinery in California and the purchase of *similar* oil from the refinery in Cushing). Therefore, some believe that the "barrel back" should be recorded as a net adjustment to the carrying amount of the oil inventory (eventually cost of sales) and recorded net in the income statement, while the third-party sale should be recorded gross in the income statement. Reporting the barrel back on a gross basis would double the revenues reported by OilCo with no corresponding increase in production. Others believe the barrel back should be recorded gross in the income statement because they believe the sale to the refiner represents the close out of the existing position in California oil, while the purchase represents the establishment of a different position in Cushing oil for sale at a later date to another third party. Those who prefer a gross presentation also note that OilCo held title to and bore the inventory risks for both barrels of oil.

Issue

8. The issue is whether realized gains and losses should be shown gross or net in the income statement for contracts that are *not* held for trading purposes (as defined in Issue 02-3) but are derivatives subject to Statement 133 (whether or not the derivative is designated as a hedging instrument pursuant to Statement 133).

Current EITF Discussion

9. At the July 31, 2003 EITF meeting, the Task Force reached a consensus that determining whether realized gains and losses on physically settled derivative contracts not "held for trading purposes" should be reported in the income statement on a gross or net basis is a matter of judgment that depends on the relevant facts and circumstances. Consideration of the facts and circumstances should be made in the context of the various activities of the entity rather than based solely on the terms of the individual contracts. In evaluating the facts and circumstances for purposes of determining whether an arrangement should be reported on a gross or net basis, the Task Force acknowledged that the economic substance of the transaction as well as the guidance set forth in Opinion 29 relative to nonmonetary exchanges and the gross versus net reporting indicators provided in Issue 99-19 may be considered in making this determination.

[1] Pursuant to Implementation Issue C12.

Board Ratification

10. At its August 13, 2003 meeting, the Board ratified the consensus reached by the Task Force in this Issue.

Status

11. No further EITF discussion is planned.

Status of Remaining Open Issues

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 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).

<table>
<tr><th>Issue No.</th><th>Description</th><th>Date Added</th><th>Date(s) Discussed</th><th>Next Meeting</th><th>FASB Staff</th><th>Immediate Plans</th><th>Due Date - Next Deliverable</th></tr>
<tr><td rowspan="2">00-18</td><td>Accounting Recognition for Certain Transactions involving Equity Instruments Granted to Other Than Employees</td><td>5/00</td><td>7/00, 7/01, 11/01, 1/02, 3/02</td><td>Not scheduled</td><td>Munro
Durbin</td><td>Pending further progress in the Board's active project on share-based payment which is expected to include recognition and measurement for share-based transactions with non-employees</td><td>Upon Issuance of Exposure Draft on Share-Based Payments</td></tr>
<tr><td colspan="7">The remaining issue in Issue 00-18 is Issue 3: For transactions that include a grantee performance commitment, how the grantee should account for the contingent right to receive, upon performing as specified in the arrangement, grantor equity instruments that are the consideration for the grantee's future performance. The Task Force asked the FASB staff to focus on improving the guidance (originally from Issue 96-18) used to determine the date at which a commitment for counterparty performance to earn the equity instruments is reached. The measurement date issues, as well as several of the other issues and sub-issues of Issue 00-18 (also related to Issues 96-18 and 00-8) are presently under consideration in the Board's share-based payment project.</td></tr>
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Issue No.	Description	Date Added	Date(s) Discussed	Next Meeting	FASB Staff	Immediate Plans	Due Date - Next Deliverable
00-27	Application of EITF Issue No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios," to Certain Convertible Instruments	5/00	11/00, 1/01	Not scheduled	TBD Richards	Pending further progress on phase two of the Board's *Liabilities and Equity* project.	2004
01-J	Accounting for the Deconsolidation of a Majority-Owned Subsidiary	11/01	N/A	11/03	McIntosh Durbin	Based on additional input received, FASB staff to prepare issue summary for November meeting	November meeting materials
02-14	Whether the Equity Method of Accounting Applies When an Investor Does Not Have an Investment in Voting Stock of an Investee but Exercises Significant Influence through Other Means	3/02	9/02, 11/02, 1/03, 3/03	11/03	McBride Tovey	Consideration of model for recording equity method earnings and losses; FASB staff to explore applicability of variable interest concepts from Interpretation 46.	November meeting materials

Issue No.	Description	Date Added	Date(s) Discussed	Next Meeting	FASB Staff	Immediate Plans	Due Date - Next Deliverable
02-D	The Effect of Dual-Indexation both to a Company's Own Stock and to Interest Rates and the Company's Credit Risk in Evaluating the Exception under Paragraph 11(a)(1) of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*	3/02	N/A	Not scheduled	TBD	On hold, pending deliberations during phase two of the Board's *Liabilities and Equity* project.	2004
02-J	Interpretation of an "Unconstrained Right to Pledge or Exchange" Transferred Assets in a Collateralized Bond Obligation	9/00 (AC) 11/02 (TF)	N/A	11/03	Laurenzano Lusniak	FASB staff to prepare initial Issue Summary for discussion at an upcoming meeting.	Provision-ally planned for November 2003 meeting.
03-1	The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments	1/03 (derived from 02/14)	3/03, 5/03, 7/03	11/03	McBride Durbin	FASB staff to further refine separate models for different types of investments based on Task Force guidance at 7/03 meeting.	November meeting materials
03-6	Participating Securities and the Two-Class Method under FASB Statement No. 128, *Earnings per Share*	3/03	5/03, 7/03	11/03	Larson Sogoloff	FASB staff to convene working group to develop recommendations for the Task Force	September working group meeting

Issue No.	Description	Date Added	Date(s) Discussed	Next Meeting	FASB Staff	Immediate Plans	Due Date - Next Deliverable
03-9	Evaluating the Criteria in Paragraph 11(d) of FASB Statement No. 142, *Goodwill and Other Intangible Assets*, Regarding Renewal or Extension When Determining the Useful Life of an Intangible Asset	5/03	7/03	11/03	Durbin Pinson	FASB staff to develop guidance to assist in the determination of when a renewable intangible asset should be determined to have an indefinite life as well as circumstances when other-than-straight-line amortization is appropriate.	November meeting materials
03-10	Application of EITF Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor," by Resellers to Sales Incentives Offered to Consumers by Manufacturers	7/03	7/03	11/03	Larson Sletten	Draft Abstract based on tentative conclusion to be drafted and posted to the web-site for comment; in particular with respect to transition.	Abstract posted following final minutes of July meeting
03-F	Accounting Treatment of Emission Allowances Administered under the U.K. Emissions Trading Scheme	3/03	N/A	11/03	Westerlund Durbin	Evaluate IFRIC Draft interpretation for possible leverage to this Issue; broaden Issue to consider all emissions trading programs, not just UK scheme.	November meeting materials.

Issue No.	Description	Date Added	Date(s) Discussed	Next Meeting	FASB Staff	Immediate Plans	Due Date - Next Deliverable
03-K	Applying the Conditions in Paragraph 42 of FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, in Determining Whether to Report Discontinued Operations	5/03	N/A	11/03	Sogoloff Larson	FASB staff to convene working group to begin development of a model for determining (a) which cash flows are to be considered and (b) what forms of involvement constitute significant continuing involvement.	August / September working group meetings
03-L	Subsequent Accounting for Executory Contracts Recorded on an Entity's Balance Sheet	5/03	N/A	Not scheduled	Westerlund Sogoloff	Scope of Issue to address all executory contracts recorded on a company's balance sheet without regard to the accounting that gave rise to the initial recognition and measurement.	November meeting
Issues Pending Further Consideration by the Agenda Committee							
00-N	Measuring Fair Value of Equity Securities with Restrictions in a Nonmonetary Exchange	5/00	N/A		Munro	Issue resolved by decision to amend Statement 115 in Board project on *Measuring All Financial Assets and Liabilities at Fair Value.*	September Agenda Committee meeting.

Issue No.	Description	Date Added	Date(s) Discussed	Next Meeting	FASB Staff	Immediate Plans	Due Date - Next Deliverable
	This Issue was originally proposed as a FASB Staff Announcement in May 2000. The proposed announcement would have clarified that (1) equity securities with restrictions received in a nonmonetary exchange should be measured at fair value, with appropriate consideration of any restrictions (including those that may lapse within one year) and (2) the subsequent accounting under Statement 115 for those securities should follow the guidance in that Statement. In the event that the restrictions lapse within one year, those restrictions would be disregarded in applying Statement 115 pursuant to the guidance in the last sentence of paragraph 3(a) and footnote 2 of that Statement. However, the SEC Observer expressed concern regarding that conclusion and recommended that the Issue be considered by the Task Force rather than through a FASB Staff Announcement. Consideration of this Issue was suspended pending developments in the AICPA's project on valuing privately held equity securities as well as the Board's project on measuring fair values of financial instruments. In April of 2003, in the context of that FASB project, the Board concluded that equity securities subject to restrictions should always be measured at fair value and, as a result, decided to amend Statement 115 to remove the last sentence of paragraph 3(a) and footnote 2 to that paragraph.						
	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		TBD	Pending consideration of an FASB project that may address the measurement of beneficial interests in securitized financial instruments.	

Issue No.	Description	Date Added	Date(s) Discussed	Next Meeting	FASB Staff	Immediate Plans	Due Date - Next Deliverable
	Accounting for Investments in Limited Liability Companies	4/01	N/A	Not scheduled	Sogoloff McIntosh	Pending FASB staff consideration of issues relating to the accounting for investors' interests in unconsolidated real estate investments following suspension of AcSEC activities.	
	Accounting for Deferred Stripping Costs in the Mining Industry	7/03	N/A		Westerlund	FASB staff to convene a working group to attempt to identify prevalent issues in the mining industry in which diversity in practice exists and provide findings to the Agenda Committee at a future meeting.	November Agenda Committee Meeting.